92-2258

A	BANKNORTH GROUP INC	10Q	03-31-92
B	BURST AGRITECH INC	10Q	05-31-92
C	CELLULAR TECHNICAL SERVICES CO INC	10Q	03-31-92
D	CHECKERS DRIVE-IN RESTAURANTS INC	10Q	03-31-92
E	COMPUCOM SYSTEMS INC	10Q	03-31-92
F	CRYSTAL MOUNTAIN INC	10Q	03-31-92
G	CURAFLEX HEALTH SERVICES INC	10Q	03-31-92
H	EDGEMARK FINANCIAL CORP	10Q	03-31-92
I	FOREST OIL CORP	10Q	03-31-92
J	HABERSHAM ENERGY CO	10Q	03-31-92
K	ITHACA BANCORP INC	10Q	03-31-92
L	MET CAPITAL CORP	10Q	03-31-92
M	SOONER ENERGY CORP	10Q	03-31-92
N	STANDARD REGISTER CO	10Q	03-29-92
O	TANDY BRANDS ACCESSORIES INC	10Q	03-31-92

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED MARCH 31, 1992 COMMISSION FILE NUMBER 0-18173

BANKNORTH GROUP, INC.

A DELAWARE CORPORATION IRS EMPLOYER IDENTIFICATION NO. 03-0321189

300 FINANCIAL PLAZA, P.O. BOX 5420, BURLINGTON, VERMONT 05401

TELEPHONE (802) 658-2492 OR (802) 658-9959

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes XX No ___.

6,804,425 shares of common stock, $1.00 par, outstanding on March 31, 1992.

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CONSOLIDATED BALANCE SHEETS

	March 31, 1992	December 31 1991
	(In thousands)	
	(Unaudited)	
ASSETS		
Cash and due from banks	$77,660	$80,448
Federal funds sold	9,525	4,500
Cash and cash equivalents	87,185	84,948
Interest-bearing deposits with banks	50	51
Investment securities:		
Taxable	322,370	305,224
Exempt from federal income taxes	31,273	31,331
Total investments	353,643	336,555
Loans	1,102,439	1,167,338
Less: Allowance for possible loan losses	24,528	22,096
Net loans	1,077,911	1,145,242
Premises and equipment, net	28,839	29,640
Other assets	62,868	63,315
Total assets	$1,610,496	$1,659,751
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand deposits	$165,885	$186,104
Regular savings	174,847	161,711
NOW and money markets	406,174	393,115
Time deposits	652,579	684,418
Total deposits	1,399,485	1,425,348
Federal funds purchased	500	25,450
Securities sold under agreements to repurchase	44,172	35,875
Borrowings from U.S. Treasury	7,021	16,647
Other short-term borrowings	60	141
Total short-term borrowings	51,753	78,113
Long-term debt	14,028	14,028
Other liabilities	21,226	16,916
Total liabilities	1,486,492	1,534,405
Shareholders' equity:		
Common stock, $1.00 par value: authorized 20,000,000 shares: issued and outstanding 6,804,425	6,804	6,804
Surplus	55,501	55,501
Retained earnings	61,699	63,041
Total shareholders' equity	124,004	125,346
Total liabilities and shareholders' equity	$1,610,496	$1,659,751

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
	(In thousands, except per share data)	
Interest income:		
Interest and fees on loans	$26,461	$33,918
Deposits with banks	1	25
Federal funds sold	130	256
Securities purchased under agreements to resell	--	199
Investment securities:		
Taxable	5,867	4,028
Exempt from federal taxes	457	669
Total interest income	32,916	39,375
Interest expense:		
Deposits	16,331	21,549
Short-term borrowings	554	779
Long-term debt	268	1
Total interest expense	17,153	22,328
Net interest income	15,763	17,047
Less: Provision for possible loan losses	6,586	5,045
Net interest income after provision for possible loan losses	9,177	12,002
Other operating income:		
Trust fees	1,814	1,746
Service charges on deposit accounts	1,297	1,281
Credit card income	579	609
Net securities transactions	59	(41)
Net loan transactions	2,557	198
Other income	1,023	1,069
Total other operating income	7,329	4,772
Other operating expenses:		
Salaries	7,249	6,253
Employee benefits	1,263	1,552
Net occupancy expenses	1,472	1,347
Equipment expenses	1,251	1,282
OREO and repossession expenses	1,478	902
FDIC insurance assessment	806	678
Other expenses	4,574	4,540
Total other operating expenses	18,769	16,614
Income (loss) before income taxes	(2,263)	166
Income tax expense (benefit)	(921)	(7)
Net income (loss)	($1,342)	$173
Net income (loss) per share	($0.20)	$0.03

See accompanying notes to consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)	Three Months Ended March 31,	
	1992	1991
	(In thousands)	
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income (loss)	($1.342)	$173
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1.031	902
Provision for possible loan losses	6.586	5.545
Adjustment of other real estate owned to estimated market value	1.154	556
Provision for deferred tax benefit	(1.216)	(658)
Loss (gain) on sale of investment securities	(59)	41
Loss (gain) on sale of other real estate owned	(24)	58
Decrease (increase) in interest receivable	1.023	(50)
Increase in interest payable	984	1.450
Increase in other assets	(164)	(207)
Increase in other liabilities	3.351	233
Gain on sale of loans	(2.557)	(194)
Total adjustments	10.089	7.678
Net cash provided by operating activities	8.747	7.851
Cash flows from investing activities:		
Proceeds from maturity of interest-bearing deposits	1	1
Proceeds from maturity of investment securities	40.893	23.851
Proceeds from sale of investment securities	4.005	3.500
Purchase of investment securities	(61.927)	(40.330)
Proceeds from sale of loans	90.775	18.256
Proceeds from sale of other real estate owned	1.065	481
Payments received on other real estate owned	777	--
Net loans made to customers	(29.641)	(12.407
Capital expenditures	(230)	(1.025)
Net cash provided by (used in) investing activities	45.718	(7.633)
Cash flows from financing activities:		
Net decrease in deposits	(25.863)	(65.004)
Net increase (decrease) in short-term borrowings	(26.360)	31.253
Dividends paid	(5)	(60)
Net cash used in financing activities	(52.228)	(33.811)
Net increase (decrease) in cash and cash equivalents	2.237	(33.593)
Cash and cash equivalents at beginning of period	84.948	108.097
Cash and cash equivalents at end of period	$87.165	$74.504
Additional disclosure relative to cash flows:		
Interest paid	$16.169	$20.978
Taxes paid	--	790
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans to other real estate owned	$3.347	$3.608
Other real estate owned returned to loan status	1.179	--
Increase in equity market adjustment	--	250

BANKNORTH GROUP. INC.

Notes to Consolidated Interim Financial Statements

1. The accompanying unaudited consolidated interim financial statements include the accounts of the Corporation and its subsidiaries. The Howard Bank. N.A.. First Vermont Bank and Trust Company. Franklin Lamoille Bank. Granite Savings Bank and Trust Company. Woodstock National Bank and North Group Realty. Inc. It is the opinion of management that the accompanying Consolidated Interim Financial Statements have been prepared in accordance with the instructions to Form 10-Q and reflect all adjustments which are considered necessary to report fairly the financial position as of March 31. 1992. the Consolidated Statements of Income for the three months ended March 31. 1992 and 1991. and the Consolidated Statements of Cash Flows for the three months ended March 31. 1992 and 1991. The accompanying Consolidated Interim Financial Statements should be read in conjunction with Banknorth Group. Inc.'s consolidated year end Financial Statements. including notes thereto. which are included in Banknorth Group. Inc.'s 1991 annual report to shareholders on Form 10-K.

2. Earnings per share were calculated based on 6.804.425 weighted average shares issued and outstanding.

KPMG Peat Marwick

Certified Public Accountants

74 North Pearl Street
Albany, NY 12207

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Banknorth Group, Inc.

We have reviewed the consolidated balance sheet of Banknorth Group, Inc. and subsidiaries as of March 31, 1992 and the related consolidated statements of income and cash flows for the three-month periods ended March 31, 1992 and 1991, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Banknorth Group, Inc. and subsidiaries as of December 31, 1991, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 29, 1992 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1991, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

April 16, 1992

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis focuses on the factors affecting the financial condition and results of operations of Banknorth Group, Inc. ("Banknorth" or "Company") during the three month period ended March 31, 1992, with comparisons to 1991 as applicable. The consolidated interim financial statements, as well as the 1991 annual report to shareholders, should be read in conjunction with this review.

Overview

Banknorth realized a net loss of $1.3 million, or $.20 per share, in the first quarter of 1992, compared to net income of $173 thousand, or $.03 per share, for the first quarter of 1991.

During the first quarter of 1992:

- Net interest income, at $15.8 million, decreased $1.8 million from the first quarter of 1991.
- The provision for possible loan losses, at $6.6 million, was up $1.0 million from the first quarter of 1991.
- Foreclosed real estate expenses were $1.5 million, an increase of $636 thousand from the first quarter of 1991.
- Non-performing loans increased $7.9 million from December 31, 1991 primarily as the result of one credit relationship.
- Four of five subsidiary banks and the mortgage company were profitable.

Total assets at March 31, 1992 were $1.6 billion, down only $12.2 million or .75% from March 31, 1991. Capital remained strong with total shareholders' equity at $124.0 million, or 7.70% of total assets at March 31, 1992.

Asset/Liability Management

Banknorth manages its assets and liabilities to maximize net interest income, while minimizing risk from movements in interest rates and maintain adequate liquidity.

Loans. Average total loans, $1.1 billion for the three months ended March 31, 1992, have decreased $91.3 million from the first quarter of 1991. Table A discloses the mix of loans in the portfolio at March 31, 1992, and measures growth and mix changes from March 31, 1991 and December 31, 1991.

From March 31, 1991 to March 31, 1992, the Company charged off loans totalling $35.4 million. During this same period, an additional amount of $29.6 million was transferred from the loan category to OREO as the result of in-substance or in-fact foreclosures, and $61.6 million of loans were sold outside the normal course of business, at a net gain. Without the above transactions, average loan growth, net of repayments, has amounted to $35.3 million, or 2.9%, over this time period.

Investment Securities. Average investment securities for the three months ended March 31, 1992, were $351.1 million, up $81.7 million, or 30.3%, from the same period a year ago. During the past 18 months, because of the growing trend of customer refinancing for lower rates, the Company has sold selected single-family mortgages carried in the loan portfolio at a gain, and invested a portion of the proceeds in mortgage-backed securities. Mortgage-backed securities were $202.4 million at March 31, 1992, up $130.9 million from March 31, 1991. The market value of the total investment securities portfolio at March 31, 1992 was $1.9 million in excess of book value. Table B details the securities in the portfolio as of March 31, 1992, with comparisons to 1991.

Income from Earning Assets. Income from earning assets, on a fully-taxable equivalent ("FTE") basis, was $33.2 million for the first quarter of 1992, a decrease of $7.1 million or 17.6% from the $40.3 million realized in the first quarter of 1991. The change was a result of a decrease in average balances of $24.6 million combined with a decrease in average rates earned of 172 basis points. The net interest margin in the first quarter of 1992 was 4.28%, compared to 4.71% in the first quarter of 1991. Detailed information regarding average balances of, and yields earned on, earning assets can be found in Table C. Table D details the impact on interest income of changes in volume and rate.

Deposits. Average total deposits were $1.4 billion for the three months ended March 31, 1992, down $18.5 million, or 1.3%, from the first quarter of 1991. Average increases in non-interest-bearing or lower rate deposits were offset by declines in higher rate certificates of deposit ("CDs") in response to the lower rate environment causing the overall decline. Average non-interest-bearing demand deposits grew $2.9 million, or 1.8%, while interest-bearing deposits declined $21.4 million, or 1.7% from the first quarter of 1991. Average increases in NOW and money market accounts, up $32.4 million or 8.7%, as well as regular savings, up $13.6 million or 8.9%, were offset by average declines in CDs and other time accounts, down $67.5 million or 9.1%. Mix changes in average deposit balances from the first quarter of 1991 to the first quarter of 1992 reflected the customer's desire to invest in shorter maturities as rates in general have trended downward since early in 1991.

Expense of Interest-Bearing Funds. Interest expense was $17.2 million for the first quarter of 1992, a decrease of $5.2 million or 23.2% from the first quarter of 1991. The change was the result of a $2.1 million decline in the average balances, as well as a 155 basis point decline in average rates paid. Detailed information regarding average balances of, and rates paid on, interest-bearing funds can be found in Table C. Table D details the impact on interest expense of changes in volume and rate.

Net Interest Income. Net interest income, on an FTE basis, for the three months ended March 31, 1992, was $16.0 million, down $1.9 million, or 10.7%, from the first quarter of 1991. This decline was the result of income from earning assets dropping $7.1 million, while the expense of interest-bearing funds fell only $5.2 million. General market rates have fallen dramatically since the first quarter of 1991 causing both components of net interest income to drop. During late 1991 and early 1992, Banknorth and the industry faced an all-time high rate of customer refinancing of single-family mortgage loans. A substantial portion of the loan portfolio was made up of such loans, many of which were yielding in excess of 9% and were valued in the marketplace at a premium to book value. Faced with the prospect that many of those loans would ultimately be refinanced at lower rates and the market premium would be lost, management sold a total of $61.6 million of mortgages at gains of $434 thousand and $1.7 million in late 1991 and in the first quarter of 1992, respectively.

Other Operating Income

Other operating income was $7.3 million for the first quarter of 1992, up $2.6 million, or 53.4%, from the first quarter of 1991. Included in the first quarter of 1992 was the $1.7 million gain on sale of single-family mortgage loans. Without the gain, other operating income for the first quarter of 1992 would have shown an increase of $821 thousand, or 17.2%, over the first quarter of 1991.

Other Operating Expenses

Other operating expenses for the three months ended March 31, 1992, were $18.8 million. This was an increase of $2.2 million, or 13.0%, above the first quarter of 1991. The following schedule details items included in the totals:

	Three Mos. Ended March 31,			
	1992	1991	Change	%
Total other operating expenses, as reported	$18,769	$16,614	$ 2,155	13.0%
FDIC insurance expense	806	698	108	15.5
OREO expense	1,478	842	636	75.5
Early retirement expense	872	-	872	-
Flood loss	100	-	100	-
Robbery loss	54	-	54	-
Expense of consolidation	81	-	81	-
Expense of EDP conversion	-	706	(706)	-
Total other operating expenses, without the above items	$15,378	$14,368	$ 1,010	7.0%

As the schedule shows, other than the items listed above, management has been able to control overhead expenses to a reasonable level of increase.

Non-Performing Assets

Non-Performing Loans. Non-performing loans, including those past due 90 days and still accruing interest, were $38.2 million at March 31, 1992, up $4.1 million or 11.9% from March 31, 1991. Non-performing loans increased $7.9 million from December 31, 1991, primarily as the result of one commercial credit relationship which management has had under close scrutiny for over a year. This credit was partially charged off in the first quarter of 1992 with the remaining balance being placed on non-accrual status. Table F presents details of non-performing loans, by category, as of March 31, 1992, with comparisons to December 31, 1991 and March 31, 1991.

Allowance for Possible Loan Losses. The adequacy of the Allowance for Possible Loan Losses ("APLL") is evaluated monthly based on both a review of all loan categories, with special emphasis on loans that management believes warrant special attention, as well as expectations of future economic conditions. In the first quarter of 1992, the provision for possible loan losses was $6.6 million, an increase of $1.0 million, or 18.8%, over the first quarter of 1991. Loans charged off, net of recoveries, for the first quarter of 1992 were $4.2 million, compared to $3.9 million in the first quarter of 1991. Management is cautiously optimistic that the present recession, a primary contributor to the level of non-performing assets, will begin to show some signs of recovery in 1992. Levels of loans, internally graded adversely, have begun to decline. Should these trends continue, management expects that quarterly levels of provisions to the APLL would be reduced. At March 31, 1992, the APLL stood at $24.5 million, or 2.22% of total loans, affording 64.24% coverage of total non-performing loans. It is management's belief, based on analysis of current data, that as of March 31, 1992, the APLL provided adequate protection against loss. Table H analyzes changes to the APLL by loan category for the first quarter of 1992 with comparisons to the year ended December 31, 1991 and the quarter ended March 31, 1991.

Other Real Estate Owned. Total other real estate owned ("OREO") was $25.5 million at March 31, 1992, up $14.3 million from March 31, 1991, but down $447 thousand from December 31, 1991. Sales activity of OREO has begun to increase which has helped to reduce the balance. Management believes, based on experiences of peers in the industry and the sluggish economic recovery, that elimination of the Company's OREO problem will possibly take an extended period of time. Expenses related to OREO in the first quarter of 1992 were $1.5 million. This level of OREO expense is expected to continue for the remainder of 1992. Table G details the OREO balances at March 31, 1992 with comparisons to December 31, 1991.

Capital Resources

Shareholders' equity (Tier I capital) at March 31, 1992 was $124.0 million, or 7.70% of total assets. Table I presents factors related to risk-based capital adequacy in more detail. The capital adequacy ratios in Table I are all in excess of minimum regulatory guidelines. Based upon expected improvements in non-performing assets which should result in lower levels of provisions to the APLL, management believes the Company will return to profitability in 1992 which will prevent further erosion of the strong capital base. Cash dividends remain suspended to protect the shareholders' principal investment. The book value of common stock was $18.22 per share at March 31, 1992.

Income Taxes

Banknorth reported a tax benefit of $921 thousand, for book purposes, for the first quarter of 1992. The comparable income tax benefit for the first quarter of 1991 was $7 thousand. Loss before income taxes for the first quarter of 1992 was $2.3 million, compared to income before income taxes of $166 thousand in the first quarter of 1991.

Liquidity

Banknorth's liquidity, the ability to fund new asset growth as well as deposit replacements, remained strong during the first quarter of 1992. Consumer confidence in Banknorth's position in the markets served, as well as capital strength, has enabled the Company to continue to attract deposits at normal local market rates and raise other funds as needed. Dependency on more volatile sources of funds continues to be reduced.

ABLE A.
OAN PORTFOLIO
AND PERCENTAGE
DISTRIBUTION

	At March 31,				At December 31,		% Change	% Change
	1992		1991		1991		3/31/92 vs. 3/31/91	3/31/92 vs. 12/31/91
	Amount	Percent	Amount	Percent	Amount	Percent		
	(Dollars in thousands)							
Commercial, financial, and agricultural	$176,810	16.0 %	$222,922	18.3 %	$190,872	16.4 %	(20.7)%	(7.4)
Real estate:								
Construction and land development	29,710	2.7	28,827	2.4	32,991	2.8	3.1	(9.9)
Commercial	358,371	32.5	419,642	34.4	362,693	31.1	(14.6)	(1.2)
Residential	352,267	32.0	349,674	28.6	344,765	29.5	0.7	2.2
Total real estate	740,348	67.2	798,143	65.4	740,449	63.4	(7.2)	--
Credit card receivables	20,104	1.8	16,209	1.3	15,991	1.4	24.0	25.7
Other installment	148,659	13.5	177,393	14.5	157,987	13.5	(16.2)	(5.9)
Total installment	168,763	15.3	193,602	15.8	173,978	14.9	(12.8)	(3.0)
Mortgages held for sale	16,518	1.5	6,091	0.5	62,039	5.3	171.2	(73.4)
Total loans	$1,102,439	100.0	$1,220,758	100.0	$1,167,338	100.0	(9.7)	(5.6)
Less allowance for possible loan losses	24,528	2.2	26,344	2.2	22,096	1.9	(6.9)	11.0
Net loans	$1,077,911	97.8 %	$1,194,414	97.8 %	$1,145,242	98.1 %	(9.8)%	(5.9)

TABLE B.
INVESTMENT SECURITIES

	At March 31,		At December 31,
	1992	1991	1991
	(In thousands)		
U.S. Treasuries and agencies	$112,188	$130,164	$94,882
States and political subdivisions	31,273	41,338	31,331
Mortgage-backed securities	202,353	71,487	201,732
Other securities	7,829	16,267	8,610
Total book value	$353,643	$279,256	$336,555
Market value	$355,569	$280,623	$344,302
Excess of market value versus book value	1,926	1,367	7,747
Market value as a % of book value	100.5%	100.5%	102.3%

TABLE C.
AVERAGE BALANCES, YIELDS AND NET
INTEREST MARGIN

	Three Months Ended March 31,					
	1992			1991		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
			(Dollars in thousands)			
Earning assets:						
Deposits with banks	$59	$1	6.78 %	$1,002	$25	9.98 %
Federal funds sold	13,232	130	3.93	15,193	236	6.21
Securities purchased under agreements to resell	--	--	--	12,167	199	6.54
Investments:						
Taxable	320,026	5,867	7.33	228,718	4,828	8.44
Tax exempt (note 1)	31,060	660	8.50	40,636	978	9.63
Total investments	351,086	6,527	7.44	269,354	5,806	8.62
Loans, net of unearned discount and unamortized loan fees (notes 1,2,& 3)	1,132,448	26,507	9.36	1,223,706	33,990	11.11
Total earning assets	1,496,825	33,165	8.86	1,521,422	40,256	10.58
Cash and due from banks	70,003			71,467		
Allowance for possible loan losses	(23,669)			(25,617)		
Other assets	89,058			71,127		
Total assets	$1,632,217			$1,638,399		
Interest-bearing liabilities:						
NOW and money market accounts	$407,200	4,040	3.97	$374,762	5,074	5.42
Regular savings	166,905	1,798	4.31	153,268	1,915	5.00
Time deposits	675,598	10,493	6.21	743,062	14,560	7.84
Long-term debt	14,028	268	7.64	42	1	9.52
Short-term borrowings	58,960	554	3.76	53,638	770	5.74
Total interest-bearing liabilities	1,322,691	17,153	5.19	1,324,772	22,320	6.74
Demand deposits	164,401			161,531		
Other liabilities	19,964			22,832		
Shareholders' equity	125,161			129,264		
Total liabilities and shareholders' equity	$1,632,217			$1,638,399		
Net interest income		$16,012			$17,928	
Interest rate differential			3.67 %			3.84 %
Net interest margin			4.28 %			4.71 %

Notes:

(1) Tax exempt income has been adjusted to a tax equivalent basis by tax effecting such interest at the Federal income tax rate of 34%.

(2) Includes principal balances of non-accrual loans. Interest income relating to non-accrual loans is not included.

(3) Includes industrial revenue bonds.

TABLE 8.
VOLUME AND YIELD ANALYSIS

	1992 vs 1991				
	Three months ended March 31.		Increase (Decrease)	Due to	
	1992	1991		Volume	Rate
	(In thousands)				
Interest income (FTE):					
Deposits with banks	$1	$25	($24)	($16)	($8)
Federal funds sold	130	236	(106)	(19)	(87)
Securities purchased under agreements to resell	--	199	(199)	--	(199)
Investments:					
Taxable	5,867	4,828	1,039	1,674	(635)
Tax exempt	660	978	(318)	(203)	(115)
Total investments	6,527	5,806	721	1,471	(750)
Loans	26,507	33,990	(7,483)	(2,136)	(5,347)
Total interest income	33,165	40,256	(7,091)	(700)	(6,391)
Interest expense:					
NOW and money market accounts	4,040	5,074	(1,034)	322	(1,356)
Regular savings	1,798	1,915	(117)	147	(264)
Time deposits	10,493	14,560	(4,067)	(1,048)	(3,019)
Long-term debt	268	1	267	267	--
Short-term borrowings	554	778	(224)	50	(274)
Total interest expense	17,153	22,328	(5,175)	(262)	(4,913)
Net interest income (FTE)	$16,012	$17,928	($1,916)	($438)	($1,478)

Increases and decreases in interest income and interest expense due to both rate and volume have been allocated to volume on a consistent basis.

TABLE E
INTEREST RATE SENSITIVITY
ANALYSIS

	Assets/Liabilities as of March 31, 1992 subject to repricing within:		
	0-90 days	0-180 days	0-1 year
Contractual amounts	(Dollars in thousands)		
Earning assets:			
Loans	637,918	739,451	854,521
Investment securities	48,937	74,326	96,010
Other	9,575	9,575	9,575
Total earning assets	696,430	823,352	960,106
Net sources:			
Interest-bearing deposits	775,294	1,006,212	1,149,754
Short-term borrowings	51,693	51,693	51,693
Long-term debt	14,000	14,014	14,014
Total net sources	840,987	1,071,919	1,215,461
Earning assets in excess of interest-bearing liabilities (Gap)	(144,557)	(248,567)	(255,355)
Gap as a % of total assets	8.98%	15.43%	15.86%
Cumulative gap ratio	0.83	0.77	0.79
Company targets	.85-1.15	.90-1.10	.95-1.05
Managerial amounts			
Earning assets:			
Loans	637,918	739,451	854,521
Investment securities	48,937	74,326	96,010
Other	9,575	9,575	9,575
Total earning assets	696,430	823,352	960,106
Net sources:			
Interest-bearing deposits	439,842	1,006,212	1,149,754
Short-term borrowings	51,693	51,693	51,693
Long-term debt	14,000	14,014	14,014
Total net sources	505,535	1,071,919	1,215,461
Earning assets in excess of interest-bearing liabilities (Gap)	190,895	(248,567)	(255,355)
Gap as a % of total assets	11.85%	15.43%	15.86%
Cumulative gap ratio	1.38	0.77	0.79
Company targets	.85-1.15	.90-1.10	.95-1.05

TABLE E - Continued

INTEREST RATE SENSITIVITY ANALYSIS

	Assets/Liabilities as of December 31, 1991 subject to repricing within:		
	0-90 days	0-180 days	0-1 year
Contractual amounts	(Dollars in thousands)		
Earning assets:			
Loans (#)	581,398	655,014	806,733
Investment securities	40,998	89,872	109,856
Other	4,501	4,551	4,551
Total earning assets	626,897	749,437	921,140
Net sources:			
Interest-bearing deposits	792,689	939,975	1,145,906
Short-term borrowings	78,113	78,113	78,113
Long-term debt	14,000	14,000	14,014
Total net sources	884,802	1,032,088	1,238,033
Earning assets in excess of interest-bearing liabilities (Gap)	(257,905)	(282,651)	(316,893)
Gap as a % of total assets	15.54%	17.03%	19.09%
Cumulative gap ratio	0.71	0.73	0.74
Company targets	.85-1.15	.90-1.10	.95-1.05
Managerial amounts			
Earning assets:			
Loans (#)	581,398	655,014	806,733
Investment securities	40,998	89,872	109,856
Other	4,501	4,551	4,551
Total earning assets	626,897	749,437	921,140
Net sources:			
Interest-bearing deposits	336,781	939,975	1,145,906
Short-term borrowings	78,113	78,113	78,113
Long-term debt	14,000	14,000	14,014
Total net sources	428,894	1,032,088	1,238,033
Earning assets in excess of interest-bearing liabilities (Gap)	198,003	(282,651)	(316,893)
Gap as a % of total assets	11.93%	17.03%	19.09%
Cumulative gap ratio	1.46	0.73	0.74
Company targets	.85-1.15	.90-1.10	.95-1.05

(#) Includes the effects of interest rate swaps for December 31, 1991.

TABLE F. NON-PERFORMING ASSETS	At March 31, 1992	At December 31, 1991	% Change 3/31/92 vs. 12/31/91
	(Dollars in thousands)		
Loans on a non-accrual basis:			
Commercial, financial and agricultural	$7,774	$3,571	117.70 %
Real estate:			
Construction and land development	567	1,272	(55.42)
Commercial	19,570	15,160	29.09
Residential	5,780	5,486	5.36
Credit card	42	6	600.00
Other installment	2	22	(90.91)
Total non-accrual	33,735	25,517	32.21
Restructured loans:			
Commercial, financial and agricultural	622	648	(4.01)
Real estate:			
Construction and land development	891	--	--
Commercial	136	899	(84.87)
Residential	37	137	(72.99)
Credit card	--	--	--
Other installment	21	21	--
Total restructured	1,707	1,705	0.12
Past-due 90 days or more and still accruing:			
Commercial, financial and agricultural	434	71	511.27
Real estate:			
Construction and land development	--	--	--
Commercial	276	828	(66.67)
Residential	1,037	820	26.46
Credit card	130	72	80.56
Other installment	861	1,223	(29.60)
Total past-due 90 days or more and still accruing	2,738	3,014	(9.16)
Total non-performing loans	38,180	30,236	26.27
Other real estate owned	11,400	8,931	27.65
Insubstance foreclosed real estate	14,096	17,012	(17.14)
Total other real estate owned (OREO)	25,496	25,943	(1.72)
Total non-performing assets (NPA)	$63,676	$56,179	13.34 %
At period-end:			
Allowance for possible loan losses (APLL)	$24,528	$22,096	
Coverage of non-performing loans	64.24%	73.08%	
Non-performing assets to loans + OREO	5.65%	4.71%	
NPA to total assets	3.95%	3.38%	

TABLE 6. OTHER REAL ESTATE OWNED	MARCH 31, 1992	DECEMBER 31, 1991
Foreclosures:		
Commercial	$4,959	$4,080
Condominium	172	179
Apartment	744	182
Land	4,230	3,620
Single family residential	1,295	870
	11,400	8,931
In-Substance Foreclosures:		
Commercial	$8,075	$9,826
Condominium	583	373
Apartment	1,219	1,931
Land	1,699	1,871
2-4 family residential	104	462
Single family residential	2,416	2,549
	14,096	17,012
Total other real estate owned	$25,496	$25,943

TABLE 8. SUMMARY OF LOAN LOSS EXPERIENCE	Three Months Ended March 31, 1992	Year Ended December 31, 1991
	(Dollars in thousands)	
Loans outstanding-end of period	$1,102,436	$1,167,336
Average loans outstanding-period to date	1,132,448	1,216,836
Allowance for possible loan losses at beginning of period	$22,096	$24,745
Loans charged off:		
Commercial, financial and agricultural	(2,672)	(9,469)
Real estate:		
Construction and land development	(36)	(5,379)
Commercial	(714)	(9,838)
Residential	(349)	(3,285)
Total real estate	(1,099)	(18,502)
Consumer	(1,684)	(6,218)
Total loans charged off	(5,455)	(34,189)
Recoveries on loans:		
Commercial, financial and agricultural	439	596
Real estate:		
Construction and land development	77	--
Commercial	276	259
Residential	53	75
Total real estate	406	334
Consumer	456	1,326
Total recoveries on loans	1,301	2,256
Loans charged off, net of recoveries	(4,154)	(31,933)
Provision for possible loan losses	6,586	29,284
Allowance for possible loan losses at end of period	24,528	$22,096
Net loans charged off as a % of average loans (annualized)	1.47%	2.62%
Provision for possible loan losses as a % of average loans (annualized)	2.33%	2.41%
Allowance for possible loan losses as a % of period-end loans	2.22%	1.89%

TABLE I. CAPITAL RATIOS	At March 31. 1992	At December 31. 1991
	(Dollars in thousands)	
Total assets	$1.610.496	$1.659,751
Allowance for possible loan losses	24.528	22,096
Non-Risk Adjusted:		
Primary capital ratio	9.08%	8.77%
Total capital ratio	9.08%	8.77%
Risk Adjusted:		
Total risk-adjusted on-balance-sheet assets	$1,099.161	$1.128,797
Total risk-adjusted off-balance-sheet items	46.348	49.531
Total risk-adjusted assets	$1.145.509	$1.178.328
Total risk-adjusted assets/total assets	71.13%	70.99%
Total shareholders' equity (Tier I capital)	$124.004	$125.346
Maximum allowance for possible loan losses (Note 1)	14.445	14,820
Allowable subordinated debt	3	3
Total capital (Tier II capital)	$138.452	$140,169
Tier I capital/total assets	7.70%	7.55%
Tier I capital/total risk-adjusted assets	10.83	10.64
Tier II capital/total risk-adjusted assets	12.09	11.90

Notes:

(1) Upon final implementation of regulatory capital guidelines in 1992, the maximum allowance for possible loan losses used in calculating total (Tier II) capital will be the lower of the period-end allowance for possible loan losses or 1.25% of risk-adjusted assets.

CONSOLIDATED AVERAGE BALANCE SHEETS

	Three Months Ended March 31,					
	1992		1991			
	Average Balance	%	Average Balance	%	$ Change	% Change
	(Dollars in thousands)					
Assets						
Earning assets:						
Deposits with banks	$59	-- %	$1,002	0.06 %	($943)	(94.1)%
Federal funds sold	13,232	0.81	15,193	0.93	(1,961)	(12.9)
Securities purchased under agreements to resell	--	--	12,167	0.74	(12,167)	(100.0)
Investments:						
Taxable	320,026	19.61	228,718	13.96	91,308	39.9
Tax exempt	31,060	1.90	40,636	2.48	(9,576)	(23.6)
Total investments	351,086	21.51	269,354	16.44	81,732	30.3
Loans, net of unearned income	1,132,448	69.38	1,223,706	74.69	(91,258)	(7.5)
Total earning assets	1,496,825	91.70	1,521,422	92.86	(24,597)	(1.6)
Non-earning assets:						
Cash and due from banks	70,003	4.29	71,467	4.36	(1,464)	(2.0)
Allowance for possible loan losses	(23,669)	(1.45)	(25,617)	(1.56)	1,948	(7.6)
Other assets	89,058	5.46	71,127	4.34	17,931	25.2
Total non-earning assets	135,392	8.30	116,977	7.14	18,415	15.7
Total assets	$1,632,217	100.00 %	$1,638,399	100.00 %	($6,182)	(0.4)%
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits:						
Demand deposits	$164,401	10.07 %	$161,531	9.86 %	$2,870	1.8 %
NOW and money market accounts	407,200	24.95	374,762	22.87	32,438	8.7
Regular savings	166,905	10.23	153,268	9.36	13,637	8.9
Time deposits	675,598	41.39	743,062	45.35	(67,464)	(9.1)
Total deposits	1,414,104	86.64	1,432,623	87.44	(18,519)	(1.3)
Long-term debt	14,028	0.86	42	--	13,986	--
Short-term borrowings	58,960	3.61	53,638	3.28	5,322	9.9
Other liabilities	19,964	1.22	22,032	1.39	(2,068)	(12.6)
Total liabilities	1,507,056	92.33	1,509,135	92.11	(2,079)	(0.1)
Shareholders' equity	125,161	7.67	129,264	7.89	(4,103)	(3.2)
Total liabilities and shareholders' equity	$1,632,217	100.00 %	$1,638,399	100.00 %	($6,182)	(0.4)%

SELECTED FINANCIAL DATA	Three Months Ended March 31, 1992	Years Ended December 31, 1991	1990	1989	1988
	(Dollars in thousands, except share and per share data)				
Statement of income data:					
Interest income, including loan fees	$32,916	$154,461	$164,227	$167,319	$142,414
Interest expense	17,153	84,142	94,269	94,905	77,544
Net interest income	15,763	70,319	69,958	72,414	64,870
Provision for possible loan losses	6,586	29,284	20,249	7,200	4,981
Net interest income after provision for possible loan losses	9,177	41,035	49,709	65,214	59,889
Other operating income	7,329	19,682	23,740	21,619	17,873
Other operating expenses	18,769	69,513	64,066	61,069	55,243
Income (loss) before income taxes	(2,263)	(8,796)	9,383	25,764	22,519
Income tax expense (benefit)	(921)	(5,134)	1,954	7,943	5,985
Net income (loss)	($1,342)	($3,662)	$7,429	$17,821	$16,534
Share and per share data (1):					
Shares outstanding	6,804,425	6,804,425	6,804,425	6,804,425	6,807,073
Weighted average shares outstanding	6,804,425	6,804,425	6,804,425	6,801,571	6,794,079
Book value	$18.22	$18.42	$18.92	$18.95	$17.31
Cash dividends declared	--	--	1.08	0.98	0.90
Net income (loss)	(0.20)	(0.54)	1.09	2.62	2.43
Financial ratios:					
Return (loss) on average assets	(0.33)%	(0.22)%	0.45%	1.10%	1.08%
Return (loss) on average shareholders' equity	(4.31)	(2.87)	5.68	14.33	14.72
Cash dividends declared as a % of net income	--	--	98.92	27.37	37.15
Tier I capital as a % of total risk-adjusted assets	10.83	10.64	10.39	9.88	--
Tier II capital as a % of total risk-adjusted assets	12.09	11.90	11.61	11.02	--
Average balances:					
Total assets	$1,632,217	$1,638,785	$1,639,688	$1,627,170	$1,532,746
Earning assets	1,496,825	1,514,248	1,514,619	1,507,768	1,407,084
Loans	1,132,448	1,216,836	1,295,943	1,255,110	1,150,630
Allowance for possible loan losses	21,669	26,808	17,865	13,723	10,704
Investment securities	351,086	273,862	202,794	234,952	214,438
Deposits	1,414,106	1,417,412	1,430,332	1,422,038	1,360,887
Short-term borrowings	58,960	59,512	55,666	61,911	46,320
Long-term debt	14,028	6,676	46	534	1,577
Shareholders' equity	125,161	127,620	130,[illegible]	124,368	112,292

---

(1) Share data restated giving retroactive effect to stock splits, stock dividends and pooling of interests.

Item 5. Other Information

On May 12, 1992, the Company's subsidiary, First Vermont Bank and Trust Company, received notice from the FDIC that, based on its most recent regulatory examination, First Vermont is being asked to consent to the issuance of a regulatory order with respect to certain aspects of the Bank's operations. First Vermont will be commencing discussions shortly with respect to the issuance and contents of the proposed order.

Item 6. Exhibits and Reports on Form 8-K

(b) On February 3, 1992, Banknorth Group, Inc. filed a report on Form 8-K, Item 5. Other Events.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BANKNORTH GROUP, INC.

Registrant

Date: 5/12/92

William H. Chadwick
President & CEO

Date: 5/12/92

Thomas J. Pruitt
Executive Vice President and
Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

B92-2258

FORM 10-Q

QUARTERLY REPORT

UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended May 31, 1992

Commission File Number
~~2-66605~~ C-9764

Burst AgriTech, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	42-141090 (IRS Employer Identification Number)

222 W. Gregory Boulevard
Suite 313
Kansas City, Missouri 64114
(Address of principal executive offices) (Zip code)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

816-444-2177
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirement the past 90 days.

Yes X No __

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

42,179,639 shares of common stock, $.01 par value.

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BURST AGRITECH, INC.

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ITEM 6. Exhibit

Exhibit 11 -- Computation of Income (Loss) Per Share 8

Signature 9

The accompanying notes are an integral part of the financial statements.

BURST AGRITECH, INC.
PART I. FINANCIAL INFORMATION(Unaudited)

BALANCE SHEETS

ASSETS	May 31, 1992(unaudited)	November 30, 1991(unaudited)
CURRENT ASSETS		
Cash	$0	$9,766
Trade accounts receivable	0	56,749
Finished goods inventory	0	0
Total current assets	0	66,515
TOTAL ASSETS	$0	$66,515
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Debt payable to majority stockholder	$600,000	$600,000
Note payable to majority stockholder	35,000	35,000
Trade accounts payable	90	90
Accrued FICA	(54)	263
Interest payable	423,071	349,413
Total current liabilities	1,058,107	1,090,967
STOCKHOLDERS' DEFICIT:		
Common stock--authorized, 55,000,000 shares of $.01 par value; issued and outstanding, 42,179,639 shares in 1991 and 42,179,639 shares in 1990	421,796	421,796
Additional paid-in capital	2,720,284	2,720,284
Accumulated deficit	(4,166,532)	(4,049,574)
Total stockholders' deficit	(1,058,107)	(1,024,452)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$0	$66,515

BURST AGRITECH, INC.

STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended February 28, 1991	May 30, 1992
INCOME		
Net Sales	$70,025	$49,969
Miscellaneous Income	952	0
Total Income	70,977	49,969
Cost of Sales	24,258	88
Gross Profit	(46,719)	49,881
Operating Expenses		
General & Admin.	21,113	34,491
Selling	0	0
R & D	0	0
Depreciation & Amortization	0	0
Total Expenses	21,113	34,491
Income (loss) from operations	(924)	15,390
Other income (expense):		
Interest expense	26,554	20,000
Net income (loss)	$(27,474)	$(4,670)
Income per share	$(0)	$(0)

The accompanying notes are an integral part of the financial statements.

BURST AGRITECH, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	May 31, 1991	May 31, 1992
Cash Flows from Operating Activities:		
Net Income (Loss)	$(48,463)	$(4,670)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	0	-0-
Changes in Assets & Liabilities:		
Decrease (Increase) in Accounts Receivable	39,093	-0-
Decrease (Increase) in Inventory	21,956	-0-
Increase (Decrease) in Accounts Payable	12,224	-0-
Increase (Decrease) in Interest Payable	121,200	26,550
Increase in Other Liabilities	437	210
Total Adjustments	92,276	26,760
Net Cash Provided by (Used in) Operating Activities	(43,813)	(6,896)
Net Increase (Decrease) in Cash and Cash Equivalents	(43,813)	(6,896)
Cash and Cash Equivalents at Beginning of Period	26,762	9,766
Cash and Cash Equivalents at End of Period	($17,051)	0

The accompanying notes are an integral
part of the financial statements.

BURST AGRITECH, INC.

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

May 31, 1991, November 30, 1991, and May 31, 1992

1. In the opinion of the Company, the accompanying financial statements contain all adjustments (consisting of only normal, recurring accruals) necessary to present fairly its financial position at May 31, 1992 and November 30, 1991 and the results of operations and changes in financial position for the three months ended May 31, 1991 and May 31, 1992.

2. The results of operations for the three months ended May 31, 1992, are indicative of the results to be expected for the full year in as much as the Company has transferred all of its remaining assets as of May 8, 1992 to its principal creditor. This is the final report to be filed with the Commission.

3. Inventories consist of the following:

	May 31, 1991	May 31, 1992
Raw materials	$ -0-	$ -0-
Finished goods	19,308	0
	$19,308	$ 0

4. The principal creditor sold and transferred most of the assets of the Company to Jerry Mayeux, a former employee, officer and director to the Company, exclusive of receivables. At a Board of Directors meeting called for January 28, 1992, and continued thereafter the Board considered a variety of offers including that of Dr. Mayeux. The officers were directed to culminate the contemplated Mayeux transaction. The total amount to be realized by the principal creditor was treated as a partial payment of the $1,117,163 currently owed such creditor. No excess was available for distribution to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The Company had net sales for the three months ended May 31, 1992 of $49,969, as compared to $70,025 during the same period in 1991. The fact that the Company has had no sales force for nearly four years, has spent no money on marketing for roughly the same period and the current employees of the Company are not experienced in sales of agricultural products, has resulted in the Company's sales virtually disappearing. During this four year period the Company was able to recognize some sales from a few unsolicited orders from customers of the Company who were familiar with the Company's products.

General and Administrative expenses for the three months ending May 31, 1992, were $34,491 compared to $21,113 for the same period ending May 31, 1991. These expenses primarily include costs of the Company's part-time employee, contract labor, insurance, product registration and professional fees. The Company has advised its stock transfer agent and its accountants that it can no longer afford their respective services effective March 1, 1992. All financial figures since that date are determined by management of the Company which is without accounting experience or knowledge.

The Company experienced a net loss of $4,670 for the second quarter ended May 31, 1992, compared to net loss of $27,474 for the second quarter ended May 31, 1991.

Working Capital Deficiency

The Company continues to generate insufficient funds from operations to pay its current obligations, even interest on borrowed monies. At the end of the second quarter, the Company had cash of $0. On May 31, 1992, the Company had no assets.

The Company has been able to maintain its operations during the second quarter of 1992 by using its cash reserves and because of the continued forbearance by the Company's majority stockholder and principal creditor, K.D.F., a Kansas general partnership ("KDF"), in pursuing the amounts owed it by the Company.

Continued Operations

The Company has had no sales force since the fall of 1987 and it does not anticipate hiring anyone to solicit orders for the Company's products in order to generate sales revenues.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company has no knowledge of any material legal proceedings pending against the Company.

Item 2. Changes in Securities--None

Item 3. Defaults Under Senior Securities

The Company continues to not pay interest on its indebtedness to KDF, which constitutes a default under the terms of the Company's loans from KDF. Although entitled to do so under the terms of the loan documents, KDF has not, to date, taken any action to collect amounts owed to it by the Company. KDF has indicated to the Company that it has no present intention to attempt to collect the amounts owed to it. As of May 31, 1992, the Company owed KDF the sum of $1,117,163 in principal and accrued interest.

Item 4. Submission of Matters to a Vote of Security Holders--

The Company engaged the services of Ford, Henley, Lowman & Winans, certified public accountants, 5430 W. 61st Place, Shawnee Mission, Kansas 66205 to serve as auditor of 1991 results. That decision was not attributable to any disagreement, dispute or difference of opinion between the Company and Grant Thornton. Ford, Henley, Lowman & Winans declined to audit the 1991 results for reasons other than any disagreement, dispute or difference between it and the Company. The Company was unable to identify an independent accountant to conduct such an audit and is now unable to afford it.

Item 5. Other Matters--None

Item 6. Exhibits

Exhibit 11

BURST AGRITECH, INC.

COMPUTATION OF INCOME (LOSS) PER SHARE
(Unaudited)

Income (loss) per share is computed on the basis of the weighted average number of shares outstanding during each period, as retroactively adjusted to reflect the merger with Dawn Corporation.

	Three Months Ended	
	May 31, 1991	May 31, 1992
weighted average number of shares outstanding	42,179,639	42,179,639
Net income (loss) for the period	$(24,918)	$(4,470)
Income per share for the period	$(-0-)	$(-0-)

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated June 26, 1992

BURST AGRITECH, INC.

By________________________
Chairman, President
Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

FORM 10-Q

(X) Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

C92-2258

For the quarterly period ended March 31, 1992 or

( ) Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from ________ to ____________

Commission File Number 0-19437

CELLULAR TECHNICAL SERVICES COMPANY, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	11-2962080
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2401 Fourth Avenue, Seattle, Washington	98121
(Address of Principal Executive Offices)	(Zip Code)

(206) 443-6400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ________

3,150,000 Common Shares were outstanding as of May 8, 1992.

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CELLULAR TECHNICAL SERVICES COMPANY, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CELLULAR TECHNICAL SERVICES COMPANY, INC.
BALANCE SHEETS

	March 31, 1992 (unaudited)	December 31, 1991
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,073,869	$3,626,211
Accounts receivable	790,674	762,581
Receivables from related parties	45,258	62,253
Inventories	263,156	196,990
Prepaid expenses	99,306	224,350
Total Current Assets	4,272,263	4,872,385
PROPERTY AND EQUIPMENT, net	859,778	822,858
SOFTWARE DEVELOPMENT COSTS, net	1,125.240	945,322
OTHER ASSETS, net	6,825	7,878
TOTAL ASSETS	$ 6,264,106	$6,648,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 681,045	$ 451,455
Accrued expenses	141,946	146,756
Customer's deposit	--	323,021
Deferred revenue	109,128	85,918
Total Current Liabilities	932,119	1,007,150
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.01 par value per share, 5,000,000 shares authorized, none issued and outstanding		
Common Stock, $0.001 par value per share 15,000,000 shares authorized, 3,150,000 issued and outstanding	3,150	3,150
Additional paid-in capital	8,128,706	8,128,706
Deficit	(2,799,869)	(2,490,563)
Total Stockholders' Equity	5,331,987	5,641,293
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,264,106	$6,648,443

The accompanying notes are an integral part of these financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.
STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
REVENUES		
License and service fees	$ 816,333	$ 360,695
Equipment sales	469,822	18,533
Other income	36,875	--
Total Revenues	1,323,030	379,228
COST AND EXPENSES		
Cost of licenses and services	352,002	119,131
Cost of equipment sold	541,322	209,371
Selling, general and administrative	457,469	147,436
Research and development	281,543	261,038
Total Costs and Expenses	1,632,336	736,976
NET LOSS, before Partner's interest in loss	(309,306)	(357,748)
PARTNER'S INTEREST IN LOSS	--	202,744
NET LOSS	$(309,306)	$ (155,004)
NET LOSS PER SHARE OF COMMON STOCK	$ (0.10)	$ (0.16)
WEIGHTED AVERAGE SHARES OUTSTANDING	3,150,000	1,000,000

The accompanying notes are an integral part of these financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.
STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
OPERATING ACTIVITIES		
Net loss	$(309,306)	$(155,004)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	168,917	71,755
Partner's interest in loss		(202,744)
Increase (decrease) in deferred revenue, net	23,210	(38,040)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(28,093)	8,206
Decrease in receivables from related parties	16,995	9,111
(Increase) decrease in inventory	(66,166)	142,241
Decrease(increase) in prepaid expenses	125,044	(2,523)
Increase in accounts payable	229,590	14,849
(Decrease) in accrued expenses	(4,810)	(71,884)
(Decrease) in customer's deposits	(323,021)	--
NET CASH USED IN OPERATING ACTIVITIES	(167,640)	(224,033)
INVESTING ACTIVITIES		
Purchase of property and equipment, net	(106,479)	(71,312)
Capitalization of software development costs	(278,223)	--
NET CASH USED IN INVESTING ACTIVITIES	(384,702)	(71,312)
FINANCING ACTIVITIES		
Cash contributions from Partner	--	145,000
Advances from affiliate	--	145,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	--	290,000
(DECREASE) IN CASH AND CASH EQUIVALENTS	(552,342)	(5,345)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,626,211	22,257
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$3,073,869	$ 16,912

The accompanying notes are an integral part of these financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

Note A - Basis of Presentation

The accompanying unaudited Financial Statements of Cellular Technical Services Company, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the three month periods are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 1992. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

On August 12, 1991, the Company exercised its option to purchase for $1,300,000 the 50% interest owned by NYNEX Mobile Billing Services, Inc. ("NYNEX") in Cellular Technical Services Company (the "Partnership") which Partnership was previously owned equally by NYNEX and the Company. The Balance Sheets, Statements of Operations and Statements of Cash Flows for all periods presented give effect to the combination of the assets, liabilities and results of operations of the Partnership with those of the Company in order to provide a more meaningful comparison between those periods presented.

Note B - Reclassifications

For 1991 financial statement presentation, $99,399 has been reclassified from selling, general and administrative expenses to various cost categories to reflect the allocation of direct overhead expenses. In addition, customer services costs of $23,822 for 1991 have been reclassified from selling, general and administrative expenses to cost of services in order to reflect direct costs of license and service fees. Other amounts, none of which are material, have been reclassified to conform to the 1992 presentation.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the unaudited financial data and the notes thereto included in Item 1. of this Quarterly Report and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

RESULTS OF OPERATIONS

Three months ended March 31, 1992 compared to three months ended March 31, 1991.

Revenues in the first quarter of 1992 were $1,323,030 or 249% higher than the first quarter of 1991. The increase is primarily attributed to implementation of the Company's Hotwatch™ System Agreement with LIN Broadcasting Corporation ("LIN") and American Cellular Communications ("ACC") that was signed in January 1991. License revenues from the LIN/ACC agreement amounted to $409,000 during the current year's quarter versus $19,000 in the prior year's quarter. In addition, $465,000 of revenues from equipment sales to LIN/ACC were recorded during 1992, while there were no such sales during 1991.

Other income of $36,875 in 1992 is attributable to interest earned from the investment of the proceeds of the Company's initial public offering in August 1991.

Cost of licenses and services, which consists primarily of customer service, engineering support costs and amortization of capitalized software increased by $232,871 or 195% to $352,002 from $119,131. Of the increase, $81,000 relates to increased amortization of purchased and internally developed software for products (primarily Hotwatch) currently being sold by the Company. The remaining costs are attributable to the increase in the number of personnel and related overhead costs required to meet the increased service activity in support of the Company's expanded customer base.

Cost of equipment sold, which includes purchased hardware and allocated engineering and installation costs, increased by $331,951 or 159% to $541,322 in 1992 from $209,371 in 1991. The 1992 costs are primarily associated with the equipment sales and installation costs under the LIN/ACC Hotwatch Agreement and to a lesser extent engineering related installation costs of various other systems. The 1991 costs include a $116,387 provision to write down inventory to net realizable value. Recognition of these charges was necessitated by management's decision to utilize integrated data processing equipment purchased from outside vendors as opposed to integrating systems from existing and acquired component parts. This inventory had limited value to the Company's future plans and little to no liquidation value. Management believes that by eliminating the need to integrate and maintain data processing systems, the Company will be better able to focus on software development and support.

Selling, general and administrative expenses increased by $310,033 or 211% to $457,469 from $147,436 in 1991. Of the increase, $75,000 relates to management fees paid by the Company to its parent, Nationwide Cellular Service, Inc. ("Nationwide"). In addition, selling and marketing expenses increased by $111,000 in 1992 as the Company has begun the expansion of its sales and marketing efforts. In late 1990, management of the Company concluded that it was in the Company's best interest to further refine and test its newly developed products, primarily Hotwatch, prior to engaging in further extensive marketing activities. The marketing function and related activities were resumed in the fourth quarter of 1991. The remaining cost increases are attributable to administrative related and overhead expenses incurred in connection with the expansion of the Company's operations and costs associated with being a public company, and increased salaries and benefits paid to the Company's President and newly hired Chief Financial Officer.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Research and development costs increased by $20,505 or 8% to $281,543 in 1992 fom $261,038 in 1991. Software development costs of $278,223 were capitalized in accordance with Statement of Financial Accounting Standards No. 86 ("FASB 86"), "Accounting for Software Development Costs". These amounts relate almost entirely to the Company's Hotwatch product. Without giving effect to the capitalization of software development costs under FASB 86, the Company incurred gross research and development expenditures of $559,766 during 1992, which represent a $298,728 or 114% increase from 1991. These expenditures reflect the Company's investment in additional personnel and related expenses to support the continued commitment to new and improved products, which primarily related to the Hotwatch system.

Partner's interest in loss in 1991 of $202,745 represents the NYNEX share of the Company's loss for the first quarter of 1991. The Company purchased the NYNEX interest in August 1991 and accordingly all subsequent profits and losses are retained by the Company.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 1992, the Company's cash on hand was $3,073,869 as compared to $3,626,211 on December 31, 1991. The $552,342 reduction resulted from funding the $309,306 net loss for the quarter, investments of $106,479 and $278,223 in property and equipment and capitalized software development costs respectively and, to a lesser extent, changes in various working capital components. As a result, the Company's working capital decreased to $3,340,144 at March 31, 1992 from $3,865,235 at December 31, 1991. During the first quarter of 1992, the Company made and will in the foreseeable future, continue to make large investments in software development and related capital assets in support of its expansion plans to provide software products to the cellular industry.

On February 19, 1992, the Company exercised its right to redeem, at a price of $.25 per Warrant, all 1,150,000 Warrants issued in connection with its initial public offering of securities consummated on August 13, 1991. The Warrants were exercisable until the close of business on May 1, 1992 (which date was extended from April 21, 1992), at which time, the right to exercise the Warrants was to terminate. Warrantholders who exercised their Warrants will receive one Class A Warrant to purchase one share of Common Stock for each four Warrants so exercised. No fractional Class A Warrants will be issued. The new Class A Warrant is exercisable at a price of $8.00 per share for a period of three years ending May 12, 1995 and is redeemable at $0.25 per Warrant by the Company, with the consent of the underwriter, at any time after May 17, 1993. Substantially all of the Warrants were exercised as of May 1, 1992 and net proceeds from this transaction (net of fees, commissions, expenses and warrant redemption) are estimated at $5,400,000.

The Company believes that existing funds plus the proceeds received from the Warrant exercise will be sufficient to fund its operations for at least the next twelve months.

PART II OTHER INFORMATION

Item 6. Exhibits and Report on Form 8-K

a) None
b) No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

Dated: May 13, 1992

By: ______________________
Michael E. McConnell
Chief Financial Officer

Dated: May 13, 1992

By: ______________________
Gregory Amadon
President

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 [illegible] OF THE SECURITIES EXCHANGE ACT OF 1934

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For the quarterly period ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 0-19649

Checkers Drive-In Restaurants, Inc.
(Exact name of Registrant as specified in its charter)

Delaware	58-1654960
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

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First Florida Bank Building 600 Cleveland Street, Suite 1050 Clearwater, Florida	7-1079
(Address of principal executive offices)	Zip code)

L32

Registrant's telephone number, including area code: (813) 441-3500

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

The Registrant had 13,595,955 shares of Common Stock, par value $.001 per share, outstanding as of May 11, 1992.

This document, including exhibits, contains 16 pages. The exhibit index is located on page 10.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The information required by this Item is incorporated by reference to the Consolidated Balance Sheets of the Checkers Drive-In Restaurants, Inc. (the "Company") and subsidiaries as of March 31, 1992 (unaudited) and December 31, 1991, the unaudited Consolidated Statements of Operations of the Company and subsidiaries for the three month periods ended March 31, 1992 and 1991, the unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 1992 and 1991 of the Company and its subsidiaries and the accompanying notes thereto filed with this Report as Exhibit 28.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

As of March 31, 1992, the Company had an ownership interest in 54 Company-operated Restaurants and an additional 84 Restaurants were operated by franchisees. The Company's ownership interest in the Company-operated Restaurants is in one of two forms: (i) the Company owns 100% of the Restaurant and operates the Restaurant (as of March 31, 1992, there were 48 such Restaurants) and (ii) the Company owns 50% or 75% of the Restaurant (a "Joint Venture Restaurant") and is responsible for operating the Joint Venture Restaurant while the remaining 50% or 25% is owned by a joint venture partner (as of March 31, 1992, there were six such Joint Venture Restaurants).

The consolidated financial statements of the Company include the accounts of the Joint Venture Restaurants and Champion Modular Restaurant Company, Inc. ("Champion"). Champion began operations on May 7, 1990 and was acquired by the Company in November 1991 in a transaction accounted for by combining the historical amounts of the Company and Champion (similar to a pooling of interests).

The Company receives revenues from Restaurant sales, franchise fees, royalties and sales of a fully-equipped manufactured modular restaurant building ("Modular Restaurant Packages"). Cost of Restaurant sales relates to food and paper costs, labor and all other Restaurant costs for Company-operated Restaurants. Cost of Modular Restaurant Packages relates to all materials, labor and other direct and indirect costs of production. Other expenses, such as depreciation and amortization, and general and administrative expenses, relate both to Company-operated Restaurant operations and Modular Restaurant Package revenues as well as the Company's franchise sales and support functions. The Company's revenues and expenses are affected by the number and timing of additional Restaurant openings and the sales volumes of both existing and new Restaurants. Modular Restaurant Package revenues are directly affected by the number of new franchised Restaurant openings and the number of Modular Restaurant Packages produced for those openings.

The Modular Restaurant Packages are comprised of two major components, building and equipment. These components are accounted for separately and, in instances where the building portion is not purchased from Champion, the equipment portion of the Modular Restaurant Package is sold separately. The equivalent number of Modular Restaurant Packages completed is determined in accordance with the percentage of completion accounting method.

On November 22, 1991, the Company completed the initial public offering of 3,622,500 shares of its Common Stock at $10.67 per share (the "IPO"), 2,857,500 shares of which were sold by the Company and 765,000 shares of which were sold by certain Selling Stockholders. Net proceeds to the Company from the sale of the shares of Common Stock in the IPO were approximately $28,346,400 after deduction of offering expenses and underwriting discounts and commissions payable by the Company. Net proceeds from the IPO have been used by the Company for retirement of debt, the acquisition of Champion's manufacturing plant, and the addition of Restaurants. The remainder of the IPO net proceeds will be used in the future for opening additional Restaurants.

All share and per share information presented herein and in the Company's consolidated financial statements have been retroactively restated to reflect the three for two stock split of the Company Common Stock paid in the form of a stock dividend paid on February 20, 1992 to stockholders of record on February 3, 1992 (the "Stock Split").

Results of Operations

The following table sets forth the percentage relationship to total revenues of the listed items included in the Company's consolidated statements of operations. Certain items are shown as a percentage of Restaurant sales and Modular Restaurant Package revenue. The table also sets forth certain selected Restaurant operating data.

	Three Months Ended March 31,	
	1991	1992
Revenues:		
Restaurant sales	74.8%	75.1%
Royalties	4.0	4.8
Franchise fees	3.0	2.1
Modular Restaurant Packages	18.2	18.0
	100.0%	100.0%
Cost and expenses:		
Cost of revenues —		
Restaurant sales(1)	77.4%	73.9%
Modular restaurant packages(2)	86.3	81.2
Depreciation and amortization	2.4	2.6
Selling, general and administrative expenses	11.5	9.4
Operating income	12.4	18.0
Interest expense (income), net	2.0	(1.2)
Minority interests in earnings	0.8	0.6
Earnings before income tax	9.6	18.6
Income tax expense	3.2	6.6
Net earnings	6.4%	12.0%
Pro forma net earnings (3)	6.0%	12.0%
Operating Data:		
System-wide Restaurant sales (in 000's)		
Company-operated	$ 5,699	$12,407
Franchised	7,708	20,064
Total	$13,407	$32,471
Average annual sales per Restaurant open for a full year (in 000's)(4)		
Company-operated	$ 853	$ 868
Franchised	865	970
System-wide	858	919
Number of Restaurants(5)		
Company-operated	26	54
Franchised	39	84
Total	65	138

---

(1) As a percent of Restaurant sales

(2) As a percent of Modular Restaurant Package revenues

(3) Adjusted to reflect income tax expense as if Champion were not an S Corporation from inception (May 1990) through acquisition (November 1991). Financial data for all other periods are actual.

(4) Includes sales for Restaurants open for entire trailing twelve month period

(5) Number of Restaurants open at end of period

Comparison of Historical Results - Three Months Ended March 31, 1992 and 1991

Revenues. Total revenues increased 117% to $16,529,298 for the first three months of 1992 compared to $7,610,114 for the same period in 1991. Company-operated Restaurant sales increased 118%. The increase resulted from opening or acquiring 28 Company-operated Restaurants since April 1, 1991, along with average sales increases in existing Company-operated Restaurants. Approximate average sales per Company-operated Restaurant open for the three month period ended March 31, 1992 increased approximately 25% as compared to average sales per Company-operated Restaurant for the corresponding period in 1991. Comparable Company-operated Restaurant sales for the three month period ended March 31, 1992 increased approximately 9.5% relative to the corresponding period in 1991. This increase in comparable sales represented approximately 8.1% of the increase in Restaurant sales and was primarily attributable to increased customer counts.

Royalties increased 162% to $795,146 for the first three months of 1992 from $303,395 for the first three months of 1991 due primarily to a 160% increase in franchised Restaurant sales. This increase resulted from adding 45 franchised Restaurants combined with average sales increases in existing franchised Restaurants. Approximate average sales per franchised Restaurant open for the three month period ended March 31, 1992 increased approximately 15.3% as compared to the corresponding period in 1991. Comparable franchised Restaurant sales for the three month period ended March 31, 1992 increased approximately 1.3% relative to the corresponding period in 1991. This increase in comparable sales represented approximately 0.6% of the increase in royalties.

Franchise fees increased 53.3% to $345,000 for the first three months of 1992 from $225,000 for the first three months of 1991. This was a direct result of opening 14 franchised Restaurants during the period ended March 31, 1992 as compared to opening nine franchised Restaurants for the corresponding three month period in 1991. The Company recognizes franchise fees as revenues when the Company has substantially completed its obligations under the franchise agreement, usually upon or just prior to opening of the franchised Restaurant.

Modular Restaurant Package revenues increased 116% to $2,982,118 for the first three months of 1992 compared to $1,382,754 for the same period in 1991 due to increased sales volume of Modular Restaurant Packages to the Company's franchisees (12.1 in the 1992 period versus 6.6 in the 1991 period). The Company does not recognize revenues from the production of Modular Restaurant Packages for Company-operated Restaurants.

Costs and expenses. Total costs of Restaurant sales consists of all Restaurant level operating expenses such as food, paper, labor, promotions, supplies, utilities, rent and other costs. These expenses totalled $9,165,263 or 73.9% of Restaurant sales for the first three months of 1992 compared to $4,411,437 or 77.4% of Restaurant sales for the first three months of 1991. Food and paper costs of all Company-operated Restaurants decreased to 36.2% of Restaurant sales for the first three months of 1992 compared to 39.7% for the first three months of 1991. The improvement in food and paper costs as a percentage of Restaurant sales was due primarily to the Company's increase in total volume resulting in more favorable purchasing agreements with vendors and to management's efforts to control waste and shrinkage in the Restaurants. Promotional expenses increased to 2.0% of Restaurant sales for the first three months of 1992 from 0.7% for the first three months of 1991 due to management's decision to increase couponing. Restaurant labor costs include salaries and wages for Restaurant managers and other Restaurant employees. Other Restaurant employee labor was 15.4% of Restaurant sales for the first three months of 1992 and 15.7% for the first three months of 1991. Restaurant management labor was 6.9% of Restaurant sales for the first three months of 1992 and 7.5% for the first three months of 1991. The Company experienced an increase in the federal minimum wage to $4.25 per hour in April 1991 which management estimates immediately increased other Restaurant employee labor by 0.6% of Restaurant sales.

Costs of Modular Restaurant Package revenues totalled $2,421,787 or 81.2% of Modular Restaurant Package revenues for the first three months of 1992 compared to $1,193,084 or 86.3% of such revenues for the comparable period in 1991. The decrease was attributable to greater sales volume in 1992.

Selling, general and administrative expenses increased $672,162 or 76.7% to $1,548,479 for the first three months of 1992 from $876,317 for the first three months of 1991. However, as a percentage of revenues, these expenses decreased to 9.4% of total revenues for the first three months of 1992 from 11.5% of revenues for the first three months of 1991. This decrease was due to the rapid increase in revenues and a more moderate increase in selling, general and administrative expenses, which in many instances were fixed.

Operating income. Operating income increased 214% to $2,971,944 for the first three months of 1992 from $945,488 for the first three months of 1991. This resulted from the strong growth in revenues and the improvement in operating expenses as discussed above.

Interest expense (income), net. Interest income, net of interest expense, was $209,278 for the first three months of 1992 as compared to interest expense, net of interest income, of $155,623 for the first three months of 1991. This net decrease was attributable primarily to interest income of $215,000 related to investments from the IPO proceeds and a reduction in interest expense due to the retirement of debt since the completion of the IPO.

Minority interests in earnings. This represents the portion of earnings before minority interests and income taxes attributable to the ownership interests of the joint venture partners in the Joint Venture Restaurants. These interests totalled $104,281 or 0.6% of revenues for the first three months of 1992 and $57,287 or 0.8% of revenues for the same period in 1991.

Income tax expense. Income tax expense increased 347% to $1,094,000 for the first three months of 1992 from $245,000 for the first three months of 1991. The effective tax rate of 36% in 1992 as compared to 33% in 1991 was primarily due to the increase in income in 1992 and a lower effective tax rate in 1991 due to the S Corporation status of Champion prior to its acquisition by the Company in 1991. The increase in the effective tax rate was partially offset by tax exempt income in 1992. Champion's S Corporation election terminated upon the combination of Champion with the Company.

Net earnings. Net earnings increased 307% to $1,982,941 for the first three months of 1992 from $487,578 for the same period in 1991.

Liquidity and Capital Resources

The Company requires capital principally for the development of new Company-operated Restaurants. Capital expenditures totalled $5,823,000 and $463,000 in the three months ended March 31, 1992 and 1991, respectively. During these same periods, the Company opened eight and zero Company-operated Restaurants, respectively. Prior to the IPO, the Company had funded these capital expenditures with cash from operations, bank and stockholder financing and the use of capital and operating leases. Generally, the Company has leased most of its Restaurant properties in the past. Of the 54 Restaurants which are operated by the Company as of March 31, 1992, the Company held ground leases for 41 Restaurants and owned the land for 13 Restaurants.

The Company expects to open 35 Company-operated Restaurants and 66 franchised Restaurants in 1992 and 50 Company-operated Restaurants and 75 franchised Restaurants in 1993. The number of Company-operated Restaurants expected to be opened in 1992 represents an increase of 75% in the number of Company-operated Restaurants initially planned at the time of the IPO. The Company's existing franchisees are required by their Franchise Agreements to open 306 Restaurants by 1996. The Company believes that the Company-operated Restaurants currently expected to open in 1992 and 1993 will require approximately $19,600,000 (including land) and $28,000,000 (including land), respectively, in capital expenditures. The Company also expects that all other capital expenditures for 1992 (excluding the purchase of Champion's manufacturing facility for approximately $650,000 in January, 1992) will total less than $2,500,000.

On April 30, 1992, the Company filed a Registration Statement with the Securities and Exchange Commission covering the proposed sale of 3,000,000 shares of its Common Stock, 1,500,000 shares of which will be offered by the Company and 1,500,000 shares of which will be offered by certain selling stockholders of the Company. If the offering is successful, the Company anticipates that the net proceeds to the Company from the offering, the remaining proceeds from the IPO and cash flow from operations will provide adequate funds for the planned development of Company-operated Restaurants in 1992 and 1993.

Impact of Inflation

The Company does not believe inflation has had a material impact on earnings during the past three years. Substantial increases in costs could have a significant impact on the Company and the industry. If operating expenses increase, management believes it can recover increased costs by increasing prices to the extent deemed advisable considering competition.

Seasonality

The Restaurants located in Florida, which perform well in winter due to tourists and seasonal visitors, help offset the normal industry-wide December through February volume decreases in Restaurants outside Florida. The Company does not expect seasonality to materially affect its operations.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On November 12, 1991, the wife of a former stockholder of the Company, as Trustee of the Estate of Derek V. Robin (her minor son) (the "Trustee"), made a claim (the "Claim") against the Company for the reissuance by the Company of 3,000 shares of a predecessor of the Company, Checkers Drive-In Restaurants of North America, Inc. ("Checkers Nevada") Common Stock (the equivalent of approximately 1,182,450 shares of the Common Stock of the Company). The Claim arose out of an alleged improper purchase of such shares by the Company from her husband Roland L. Robin, as Custodian for Derek V. Robin, a minor, on April 19, 1988 for a purchase price of $25,000. Mr. Roland Robin was a former officer and director of the Company. The Claim alleged that the shares were legally owned by the Trustee and that the transfer by Mr. Robin to the Company was void because he had no authority to make such transfer on behalf of the trust. On November 22, 1991 the Company entered into an Indemnification Agreement with James E. Mattei, Mark B. Reed, Jared D. Brown, Robert G. Brown, Herbert G. Brown, Diane Fontenot-Brown, George W. Cook, Donna Brown-McMullen and J. Scott Mattei (the "Indemnitors"), the principal stockholders of Checkers Nevada at the time of such stock purchase. Pursuant to the Indemnification Agreement, the Indemnitors agreed to indemnify the Company from and against any and all liabilities, obligations, losses, costs and expenses (including reasonable attorneys fees) arising out of or in any way related to the Claim. On April 14, 1992, litigation (the "Litigation") was commenced by the Trustee against the Company and all the Indemnitors except Diane Fontenot-Brown and J. Scott Mattei (the "Defendants") seeking unspecified damages and other relief against the Defendants as a result of the Claim. On April 30, 1992, the Trustee and the Defendants entered into a final settlement of the Claim which resulted in a dismissal with prejudice of the Litigation against the Defendants on May 7, 1992 at no liability, cost or expense to the Company.

The Company is not a party to any other material litigation and is not aware of any other threatened litigation that would have a material adverse effect on its business.

ITEM 2. CHANGES IN SECURITIES

At the Company's Annual Meeting of Stockholders held on April 29, 1992, the stockholders approved an amendment to the Restated Certificate of Incorporation of the Company which increased the number of authorized shares of Common Stock of the Company from 15,000,000 to 40,000,000. On that date, the Company filed a Restated Certificate of Incorporation with the Secretary of State of the State of Delaware completing such amendment, a copy of which has been filed with this Report as Exhibit 3.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Inapplicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Stockholders held on April 29, 1992, the stockholders approved an amendment to the Restated Certificate of Incorporation as described in Item 2 of this Report. The number of affirmative votes and the number of negative votes cast with respect to such amendment was 10,543,711 and 117,567, respectively.

ITEM 5. OTHER INFORMATION

Inapplicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3	Restated Certificate of Incorporation of the Company filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 33-47557) and incorporated herein by reference.
28	Consolidated Balance Sheets of the Company and subsidiaries as of March 31, 1992 (unaudited) and December 31, 1991, unaudited Consolidated Statements of Operations of the Company and subsidiaries for the three month periods ended March 31, 1992 and 1991, unaudited Consolidated Statements of Cash Flows of the Company and subsidiaries for the three months ended March 31, 1992 and 1991 and the accompanying notes thereto.

(b) Reports on Form 8-K:

The Company filed a Form 8-K with the Commission on February 3, 1992 reporting under Item 5 the Stock Split described in Item 2 of Part I of this Report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Checkers Drive-In Restaurants, Inc.
(Registrant)

Date: May 11, 1992

James E. Mattei, Chief Executive
Officer and President

Date: May 11, 1992

Paul C. Campbell

Paul C. Campbell, Vice President
and Chief Financial Officer
(Principal Financial Officer)

1991 FORM 10-Q
CHECKERS DRIVE-IN RESTAURANTS, INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Pagination by sequential numbering system
3	Restated Certificate of Incorporation of the Company filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 33-47557) and incorporated herein by reference.	—
28	Consolidated Balance Sheets of the Company and subsidiaries as of March 31, 1992 (unaudited) and December 31, 1991, unaudited Consolidated Statements of Operations of the Company and subsidiaries for the three month unaudited periods ended March 31, 1992 and 1991, unaudited Consolidated Statements of Cash Flows of the Company and subsidiaries for the three months ended March 31, 1992 and 1991 and the accompanying notes thereto.	11

CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1991	March 31, 1992 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$13,120,036	$ 7,875,035
Investments, at cost	2,839,671	3,813,820
Royalties receivable	127,679	196,876
Other franchisee receivables	131,387	57,656
Other receivables	947,276	859,868
Inventory	182,316	222,411
Costs and earnings in excess of billings on uncompleted contracts	377,087	89,105
Prepaid expenses and other	7,973	444,309
Pre-opening costs, net of accumulated amortization of $59,515 at December 31, 1991 and $121,154 at March 31, 1992	155,848	167,764
Total current assets	17,889,273	13,726,844
Property and equipment, at cost, net of accumulated depreciation and amortization	18,905,654	24,395,952
Long-term investments, at cost	6,235,348	4,879,671
Deposits and other noncurrent assets	462,856	369,833
	$43,493,131	$43,372,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	738,887	119,707
Accounts payable	4,951,373	4,128,192
Accrued wages	556,435	479,595
Other accrued expenses	656,516	640,988
Income taxes payable	838,765	649,680
Deferred franchise fee income, net of deferred costs	278,195	343,195
Total current liabilities	8,020,171	6,361,357
Long-term debt, less current installments	1,768,408	491,611
Deferred franchise fee income	352,500	295,000
Deferred income taxes	987,000	1,417,000
Minority interests in joint ventures	419,826	879,165
Total liabilities	11,547,905	9,444,133
Stockholders' equity:		
Preferred stock, $.001 par value. Authorized 2,000,000 shares, no shares outstanding		
Common stock, $.001 par value. Authorized 40,000,000 shares, issued and outstanding 13,582,455 at December 31, 1991 and March 31, 1992	13,776	13,776
Additional paid-in capital	29,129,475	29,129,475
Retained earnings	3,201,975	5,184,916
	32,345,226	34,328,167
Less treasury stock, at cost	400,000	400,000
Total stockholders' equity	31,945,226	33,928,167
	$43,493,131	$43,372,300

See accompanying notes to consolidated financial statements.

CHECKERS DRIVE-IN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,	
	1991	1992
	(Unaudited)	(Unaudited)
Revenues:		
Restaurant sales	$ 5,698,965	$12,407,034
Royalties	303,395	795,146
Franchise fees	225,000	345,000
Modular restaurant packages	1,382,754	2,982,118
Total revenues	7,610,114	16,529,298
Costs and expenses:		
Costs of restaurant sales	4,411,437	9,165,263
Costs of modular restaurant package revenues	1,193,084	2,421,787
Depreciation and amortization	183,788	421,825
Selling, general and administrative expenses	876,317	1,548,479
Total costs and expenses	6,664,626	13,557,354
Operating income	945,488	2,971,944
Interest expense (income), net	155,623	(209,278)
Earnings before minority interests and income taxes	789,865	3,181,222
Minority interests in earnings	57,287	104,281
Earnings before income taxes	732,578	3,076,941
Income tax expense	245,000	1,094,000
Net earnings	$ 487,578	$ 1,982,941
Pro forma earnings data:		
Net earnings as reported	487,578	1,982,941
Pro forma adjustment to provision for income taxes	33,000	—
Pro forma net earnings	$ 454,578	$ 1,982,941
Pro forma net earnings per common share	$ .04	$ .15
Weighted average number of common shares outstanding	10,917,968	13,582,455

See accompanying notes to consolidated financial statements.

CHECKERS DRIVE-IN RESTAURANTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	1991	1992
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net earnings	$ 487,578	$ 1,982,941
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	277,525	421,825
Minority interests in earnings	57,287	104,281
Change in assets and liabilities:		
(Increase) decrease in receivables	(121,443)	91,942
Increase in inventory	(11,070)	(40,095)
(Increase) decrease in prepaid expenses and other	50,926	(436,336)
(Increase) decrease in pre-opening costs	33,157	(100,865)
(Increase) decrease in deposits and other	(44,949)	93,023
Decrease in accounts payable	(73,397)	(823,181)
Decrease in accrued expenses	(272,010)	(92,368)
Increase in costs and earnings in excess of billings on uncompleted contracts	112,229	287,982
Decrease in income taxes payable	(13,126)	(189,085)
(Increase) decrease in deferred franchise fee income, net	(100,648)	7,500
Increase in deferred income taxes	113,906	430,000
Net cash provided by operating activities	495,965	1,737,564
Cash flows from investing activities:		
Proceeds from maturities of investments	—	804,897
Purchase of investments	—	(423,369)
Capital expenditures	(463,302)	(5,823,174)
Net cash used in investing activities	(463,302)	(5,441,646)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	353,801
Repayments on notes payable to bank	(25,220)	—
Principal payments on long-term debt	(70,246)	(2,249,778)
Principal payments on stockholder notes	(160,560)	—
Proceeds from investment by minority interests	—	468,370
Distributions to minority interests	(48,595)	(113,312)
Net cash used in financing activities	(304,621)	(1,540,919)
Net decrease in cash	(271,958)	(5,245,001)
Cash at beginning of period	562,886	13,120,036
Cash at end of period	$ 290,928	$ 7,875,035
Supplemental disclosures of cash flow information—		
Interest paid	$ 192,679	$ 34,321
Income taxes paid	$ 144 210	$ 853,545

See accompanying notes to consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the information set forth therein have been included. The operating results for the three months ended March 31, 1992 are not necessarily an indication of the results that may be expected for the year ended December 31, 1992. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991. Therefore, it is suggested that the accompanying financial statements be read in conjunction with the Company's December 31, 1991 consolidated financial statements.

(b) Purpose of Organization

The principal business of the Company is the operation and franchising of Checkers restaurants (the "Restaurants"). At March 31, 1992, there were 138 Restaurants operating in eleven different states. Of those Restaurants, 54 were Company-operated (including five 50%-owned and one 75%-owned joint ventures) and 84 were operated by franchisees. The accounts of the joint ventures have been included with those of the Company in these consolidated financial statements.

The consolidated financial statements also include the accounts of Champion, Champion manufactures modular restaurant packages for the Company and franchisees. In November 1991, Champion was merged with a wholly-owed subsidiary of the Company, whereby the Champion stockholders exchanged all of their shares of common stock for 1,462,497 shares of the common stock of the Company. The exchange ratio was determined through negotiations between the Company and representatives of the Champion stockholders. The merger is a combination of entities under common control and is accounted for by combining the historical amounts of the companies (similar to a pooling of interests). These consolidated financial statements reflect the retroactive combination of the Company and Champion. Champion began operations on May 7, 1990.

Intercompany balances and transactions have been eliminated in consolidation and minority interests have been established for the outside partner's interests.

(c) Revenue Recognition

The Company recognizes franchise fees as an income when substantially all of its obligations are satisfied (at the opening of a Restaurant).

Franchise fees are generated from the sale of rights to develop, own and operate Restaurants. Such fees are based on the number of potential Restaurants in a specific area which the franchisee agrees to develop pursuant to the terms of the franchise agreement between the Company and the franchisee and are recognized as income on a pro rata basis when substantially all of the Company's obligations per location are satisfied. Franchise fees are nonrefundable.

Franchise fees received prior to the substantial completion of the Company's obligations are deferred.

The Company receives royalty fees from franchises based on a percentage of each restaurant's gross revenues. Royalty fees are recognized as earned.

Champion recognizes revenues on the percentage-of-completion method, measured by the percentage of costs incurred to the estimated total costs of the contract.

(d) Cash, Cash Equivalents and Investments

The Company considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents; investments maturing within twelve months are considered to be short-term investments. Investments are carried at cost, which approximates market.

(e) Receivables

Receivables consist primarily of franchise fees and royalties due from franchisees, and receivables from the sale of Modular Restaurant Packages. The allowance for doubtful receivables was $160,000 at December 31, 1991 and $90,000 at March 31, 1992.

(f) Inventory

Inventories are stated at the lower of cost (first-in, first-out (FIFO) method) or market.

(g) Pre-Opening Costs

Certain costs related to hiring, training and other costs of opening new Restaurants are capitalized and amortized over twelve months.

(h) Property and Equipment

Property and equipment are stated at cost. Property and equipment under capital leases are stated at their fair value at the inception of the lease. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets.

(i) Income Taxes

Deferred income taxes are recognized for income and expense items that are reported for financial purposes in different years than for income tax purposes.

(j) Stock Split

The Company declared a three for two stock split payable in the form of a stock dividend effective February 20, 1992. All share and per share information in these financial statements have been retroactively restated to reflect the split.

(2) INCOME TAX

Prior to its acquisition by the Company in November 1991, Champion was taxed as an S Corporation under Subchapter S of the Internal Revenue Code. The pro forma income tax adjustments included in the consolidated statements of operations for the three months ended March 31, 1991 represent federal and state income tax expense that would have been required had Champion been a C Corporation. Champion's S Corporation election was terminated at the time of its acquisition by the Company.

(3) STOCK OPTION PLAN

In August 1991, the Company adopted a stock option plan whereby incentive stock options, nonqualified stock options, stock appreciation rights and restricted shares can be granted to eligible salaried individuals. The Company reserved 450,000 shares for issuance under the plan. At March 31, 1992, the Company had granted nonqualified options to purchase 193,650 common shares at $10.67 per share. In the three months ended March 31, 1992, options for 3,000 shares were cancelled. Of the outstanding options, 168,000 vest at the end of five years, 21,900 vest at the end of three years, and 750 vest immediately. These options expire no later than 10 years from the date of grant.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the three months ended March 31, 1992

Commission File Number 0-14371

E92-2258

COMPUCOM SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**38-2363156** (I.R.S. Employer Identification Number)
9333 Forest Lane, Dallas, TX (Address of principal executive offices)	**75243** (Zip Code)
Registrant's telephone number, including area code:	**(214) 783-1252**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X   No ____

The number of shares of the registrant's common stock outstanding as of April 30, 1992 was 29,225,029 shares.

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COMPUCOM SYSTEMS, INC. AND SUBSIDIARIES

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PART II. **OTHER INFORMATION**

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COMPUCOM SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

Assets	March 31, 1992 (unaudited)	December 31, 1991
Current assets		
Cash	$ 2,595,000	$ 4,495,000
Trade receivables	94,541,000	111,533,000
Inventories	92,123,000	98,123,000
Other	768,000	913,000
Total current assets	190,027,000	215,064,000
Property and equipment, net	4,663,000	3,163,000
Cost in excess of fair value of tangible net assets purchased, less accumulated amortization	9,940,000	10,218,000
Other assets, at cost, less accumulated amortization	965,000	1,016,000
	$ 205,595,000	$ 229,461,000
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 74,883,000	$ 95,119,000
Accrued liabilities	10,227,000	10,844,000
Subordinated debentures	4,017,000	3,975,000
Total current liabilities	89,127,000	109,938,000
Long-term debt	75,354,000	79,724,000
Deferred income taxes	4,312,000	4,298,000
Stockholders' equity		
Preferred stock	2,438,000	2,438,000
Common stock	292,000	291,000
Additional paid-in capital	20,260,000	20,041,000
Retained earnings from July 1, 1987	13,812,000	12,731,000
Total stockholders' equity	36,802,000	35,501,000
	$ 205,595,000	$ 229,461,000

See accompanying notes to consolidated financial statements.

COMPUCOM SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Three months ended March 31, 1992 and 1991

	1992	1991
	(unaudited)	
Net revenues	$ 158,906,000	$ 89,985,000
Cost of revenues	135,919,000	75,585,000
Gross margin	22,987,000	14,400,000
Expenses		
Selling	13,667,000	8,590,000
General and administrative	5,014,000	3,324,000
Interest	1,916,000	1,199,000
Depreciation and amortization	589,000	281,000
	21,186,000	13,394,000
Earnings before income taxes	1,801,000	1,006,000
Income taxes	720,000	402,000
Net earnings	$ 1,081,000	$ 604,000
Earnings per common share	$ .03	$ .02

See accompanying notes to consolidated financial statements.

COMPUCOM SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Three months ended March 31, 1992 and 1991

	1992	1991
	(unaudited)	
Cash flows from operating activities		
Net earnings	$ 1,081,000	$ 604,000
Adjustments to reconcile net earnings to net *cash provided (used) by operating activities*		
Depreciation and amortization	589,000	281,000
Deferred income taxes	614,000	193,000
Original issue discount	42,000	
Changes in assets and liabilities		
Receivables	16,992,000	(592,000)
Inventories	6,000,000	8,855,000
Other current assets	145,000	167,000
Accounts payable	(20,836,000)	(10,576,000)
Accrued liabilities and other	(407,000)	(1,445,000)
Net cash provided (used) by operating activities	4,220,000	(2,513,000)
Cash flows from investing activities		
Capital expenditures, net	(1,760,000)	(276,000)
Other assets		(414,000)
Net cash used in investing activities	(1,760,000)	(690,000)
Cash flows from financing activities		
Net (repayments) borrowings under bank credit facility	(4,370,000)	3,019,000
Issuance of common stock	10,000	
Net cash (used) provided by financing activities	(4,360,000)	3,019,000
Net decrease in cash	(1,900,000)	(184,000)
Cash at beginning of period	4,495,000	1,609,000
Cash at end of period	$ 2,595,000	$ 1,425,000

See accompanying notes to consolidated financial statements.

(1) General

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes thereto included in the Company's 1991 Annual Report on Form 10-K. The information furnished is unaudited but reflects all adjustments consisting only of normal recurring accruals which are, in the opinion of management, necessary to present a fair statement of the results for these interim periods. Interim results are not necessarily indicative of results expected for the full year.

(2) Reclassifications

Certain amounts in the 1991 consolidated financial statements have been reclassified to conform with the 1992 presentation.

COMPUCOM SYSTEMS, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

March 31, 1992

Results of Operations

Net revenues for the three months ended March 31, 1992 increased 77% to $158.9 million from $90.0 million for the same period in 1991. The significant increase in net revenues for the first quarter of 1992 is due to strong internal growth (40%) through focused selling strategies, combined with revenue growth (37%) associated with the second quarter 1991 acquisition of The Computer Factory, Inc. and the purchase of certain assets of Photo & Sound Company's microcomputer business in the third quarter of 1991.

The gross margin percentage relationship to net revenues in the first quarter of 1992 (14.5%) was comparable to the fourth quarter of 1991 (14.7%), however, it decreased when compared to the first quarter of 1991 (16%). The lower gross margin is attributable to industry-wide pricing pressures, reduced utilization of vendor programs, and increased competition from clones, partially offset by enhanced service related contributions. The Company believes that gross margins will continue to be influenced by industry-wide pressures including the nature and timing of vendor incentive programs. Future improved profitability will depend on the Company's ability to monitor and contain certain operating expenses in relation to the prevailing gross margin levels, increased focus on service contributions, and the effective utilization of vendor programs.

The following chart summarizes expenses as a percentage of net revenues for the three months ended March 31, 1992 and 1991:

	1992	1991
Selling	6.4%	6.7%
Service	2.2%	2.9%
General and administrative	3.1%	3.7%
Depreciation and amortization	.4%	.3%
Operating expenses	12.1%	13.6%
Interest	1.2%	1.3%
	13.3%	14.9%

Operating expenses for the first quarter of 1992 increased by $7.1 million or 58% from 1991 first quarter levels. In absolute dollars, operating expenses increased in all categories to support the significant revenue growth with employee related expenses the largest contributor. However, selling, service and general and administrative expenses decreased as a percentage of net revenues due to improved efficiencies and the fixed cost components being spread over a larger revenue base. For the remainder of 1992, operating expenses as a percentage of net revenues are expected to decline as the Company continues to leverage its infrastructure and enhances cost controls.

Interest expense increased in the first quarter of 1992 compared to the same period in 1991 due to higher working capital needs to support the Company's rapid revenue growth. Lower interest rates in 1992 were partially offset by the utilization of vendor capacity and subordinated debentures, which are at higher rates, to fund the revenue growth.

Liquidity and Capital Resources

As the result of significant revenue and asset growth the Company has utilized its bank credit facility, equity financing and operating earnings to fund the Company's operating activities. The Company maintains satisfactory relationships with several banks. The Company maintains an $85 million credit facility with a major bank group. The banking industry continues to employ more restrictive lending practices which are expected to continue during 1992. Although not anticipated, it is possible that the continued implementation of these practices could impede the ability of the Company to continue expanding its credit facilities to fund business activities. Management believes that additional debt or equity financing will be required to support the Company's future growth.

Net cash provided by operations for the three months ended March 31, 1992 totaled $4.2 million, of which $2.3 million resulted from net earnings plus noncash items. Working capital at March 31, 1992 is $100.9 million compared to $105.1 million at December 31, 1991. Active management of inventory levels resulted in inventory declining by $6.0 million as of March 31, 1992 compared to December 31, 1991. Accounts receivable declined $17.0 million during the first quarter of 1992 due to collections of a high level of year end receivables and a decrease in days sales outstanding.

The microcomputer distribution business is not capital asset intensive, and capital expenditures in any year normally would not be significant in relation to total assets. The Company generally funds its capital asset requirements through internally generated funds, the bank credit facility or leasing sources. The Company anticipates spending approximately $3.0 million for the remainder of 1992, primarily for improvements, warehouse equipment and enhancements to its management information systems. In addition, as a result of a very favorable opportunity to own rather than lease, the Company intends to purchase a building for approximately $3.0 million.

In April 1992, the Company acquired certain assets and assumed certain liabilities of a systems integration company for a net of approximately $2.5 million.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description	Page
11	Computation of Per Share Earnings	10

No other exhibits are required to be filed by the Registrant during the quarter ended March 31, 1992.

(b) Reports on Form 8-K

The registrant filed a report on Form 8-K on May 4, 1992, relating to the acquisition of certain assets of CompuServe Systems Integration Group Southwest, Inc., formerly MicroSolutions. Item 5 - Other Events and Item 7 - Financial Statements and Exhibits were listed on Form 8-K incorporating by reference the press release issued by the registrant on April 20, 1992. No additional financial information was required.

No other reports on Form 8-K have been filed by the registrant during the three months ended March 31, 1992.

COMPUCOM SYSTEMS, INC. AND SUBSIDIARIES

Exhibit 11

Computation of Per Share Earnings

Three months ended March 31, 1992 and 1991

	1992	1991
Net earnings	$ 1,081,000	$ 604,000
Preferred stock dividend	(49,000)	
	$ 1,032,000	$ 604,000
Average common shares outstanding	29,175,000	28,517,000
Average common share equivalents		
Options	1,857,000	1,006,000
Warrants	792,000	95,000
Average number of common shares and common share equivalents outstanding	31,824,000	29,618,000

COMPUCOM SYSTEMS, INC. AND SUBSIDIARIES

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUCOM SYSTEMS, INC.
(Registrant)

DATE: May 11, 1992

Avery More,
President and Chief Executive Officer

DATE: May 11, 1992

Robert J. Boutin,
Senior Vice President, Finance and
Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended
March 31, 1992

PROCESSED BY
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Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Commission File
No. 0-2374

CRYSTAL MOUNTAIN, INC.

A Washington Corporation

IRS Employer
Identification
No. 91-0683256

P.O. Box 1
Crystal Mountain, Washington 98022

Registrant's Telephone Number, Including Area Code:
(206) 663-2265

At March 31, 1991, 26,609 shares of Class A Common Stock and 710 shares of Class B Common Stock were outstanding.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ✓ No ____

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CRYSTAL MOUNTAIN, INC. **March 31, 1992**

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Signature Page 10

CRYSTAL MOUNTAIN INCORPORATED
CONDENSED BALANCE SHEETS
(UNAUDITED)

ASSETS

	MARCH 31 1992	MARCH 31 1991	SEPTEMBER 30 1991
CURRENT ASSETS:			
Cash and certificates of deposit	$49,337	$536,458	$144,497
Discretionary fund (Note 2)	226,826	216,892	223,705
Receivables	248,015	317,810	109,790
Inventories	50,405	82,026	46,519
Prepaid expenses and other	208,963	104,224	143,843
Federal income tax receivable	0	111,190	0
Total current assets	783,546	1,368,600	668,354
LAND IMPROVEMENTS, BUILDINGS, EQUIPMENT, & CONSTRUCTION IN PROGRESS (Note 1)	16,195,205	15,810,597	15,992,048
Less accumulated depreciation	7,786,195	7,007,957	7,390,524
Land improvement, buildings, and equipment - net	8,409,010	8,802,640	8,601,524
OTHER ASSETS:			
Lease Deposits	2,965	2,824	2,824
Loan fees, net of amortization	21,616	24,713	24,134
	24,581	27,537	26,958
Total assets	$9,217,137	$10,198,777	$9,296,836

The accompanying notes are an integral part of these condensed financial statements.

CRYSTAL MOUNTAIN, INC.
CONDENSED BALANCE SHEET
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	MARCH 31 1992	MARCH 31 1991	SEPTEMBER 30 1991
CURRENT LIABILITIES:			
Current installments of long-term deb	$9,859	$29,143	$219,362
Current Installments of obligations under capitalized leases	16,142		16,142
Notes Payable			0
Accounts Payable	110,131	266,978	156,177
Accrued liabilities	703,884	782,320	375,033
Interest Payable	79,443	146,138	132,418
Deferred income (Note 7)	1,675	1,200	161,578
Total current liabilities	921,134	1,225,779	1,060,710
LONG-TERM DEBT (Note 5) excluding current installments	3,358,000	4,239,741	5,220,000
OBLIGATIONS UNDER CAPITALIZED LEASES excluding current installments	25,435		46,123
DEFERRED INCOME TAX (Note 7)	135,000	261,000	135,000
Total liabilities	4,439,569	5,726,520	6,461,833
COMMITMENTS AND CONTINGENCIES (Note 9)	-	-	-
STOCKHOLDERS' INVESTMENT (Note 1):			
Common stock-			
Class A, $50 par value per share, 90,000 shares authorized; 26,609 shares issued and outstanding	1,330,450	1,330,450	1,330,450
Class B, $20 par value per share, 25,000 shares authorized; 710 shares issued and outstanding	14,200	14,200	14,200
Paid in capital	505,238	505,238	505,238
Retained earnings, beginning of year	985,115	973,239	985,115
Net income	1,942,565	1,649,130	
Total stockholders' investment	4,777,568	4,472,257	2,835,003
Total liabilities and stockholders' investment	$9,217,137	$10,198,777	$9,296,836

The accompanying notes are an integral part of these condensed financial statements.

CRYSTAL MOUNTAIN, INC.
CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

	For the Three Months Ended March 31		For the Six Months Ended March 31	
	1992	1991	1992	1991
REVENUES:				
Lift tickets	$3,158,118	$3,058,757	$4,962,245	$4,399,451
Food services	1,249,646	1,204,631	1,758,726	1,616,185
Ski school & racing	219,608	154,219	281,598	190,710
Concessionaires & housing	182,647	227,540	272,798	289,710
Other resort revenue	64,070	87,441	138,925	109,807
Total revenues	4,874,089	4,732,588	7,414,292	6,605,863
EXPENSES:				
Mountain & resort operations	1,313,313	1,024,187	2,277,983	1,800,486
Food services	816,305	794,702	1,232,059	1,091,015
General and administrative	722,124	666,730	1,364,754	1,362,201
Depreciation	210,418	213,124	411,934	417,533
Total expenses	3,062,160	2,698,743	5,286,730	4,671,235
INCOME FROM OPERATIONS	1,811,929	2,033,845	2,127,562	1,934,628
OTHER INCOME (EXPENSE)				
Interest revenue	4,377	5,870	6,253	12,360
Interest expense	(62,934)	(138,795)	(191,525)	(301,858)
Other	75	0	275	4,000
OTHER INCOME (EXPENSE), net	(58,482)	(132,925)	(184,997)	(285,498)
INCOME BEFORE INCOME TAX	1,753,447	1,900,920	1,942,565	1,649,130
INCOME TAX PROVISION (Note 2)	None	None	None	None
NET INCOME	$1,753,447	$1,900,920	$1,942,565	$1,649,130
SHARES OF COMMON STOCK:				
Class A, Outstanding	26,609	26,609	26,'39	26,609
Class B, Outstanding	710	710	710	710
EARNINGS PER SHARE	$64.18	$69.58	$71.11	$60.37

The accompanying notes are an integral part of these condensed financial statements.

CRYSTAL MOUNTAIN, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31		For the Six Months Ended March 31	
	1992	1991	1992	1991
CASH FLOWS FROM OPERATING ACTIVITES:				
Net Income (Loss)	$1,753,447	$1,900,920	$1,942,565	$1,649,130
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	210,418	213,124	411,934	417,533
Change in:				
(Increase) decrease in accounts receivable	107,796	(10,981)	(138,225)	(197,525)
(Increase) decrease in income tax receivable	0	0	0	0
(Increase) decrease in inventory	76,966	30,684	(3,886)	(30,589)
(Increase) decrease in prepaid expenses	(19,933)	43,034	(65,120)	(22,972)
(Increase) decrease in other assets	0	(1,595)	(141)	(1,595)
Increase (decrease) in accounts payable	(195,688)	(49,288)	(46,046)	64,053
Increase (decrease) in accrued liabilities	(52,692)	17,235	328,851	457,089
Increase (decrease) in interest payable	(58,639)	(32,286)	(52,975)	(16,768)
Increase (decrease) in deferred income	(5,243)	(13,485)	(159,903)	(150,027)
Increase (decrease) in deferred income tax	0	0	0	0
Total adjustments and changes	62,985	196,442	274,489	519,199
Net cash provided (used) by operating activities	1,816,432	2,097,362	2,217,054	2,168,329
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase) decrease in discretionary fund	(3,121)	(3,666)	(3,121)	(125,130)
Capital expenditures	(80,558)	(15,026)	(216,902)	(62,071)
Net cash provided (used) by investing activities	(83,679)	(18,692)	(220,023)	(187,201)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net line of credit borrowing				
Principal payments on short term debt/net	(6,743)	(107,043)	(209,503)	(736,199)
Principal payments on long term debt	(2,297,840)	(1,984,723)	(1,882,688)	(983,399)
Proceeds from long term debt				
Net cash provided (used) by financing activities	(2,304,583)	(2,091,766)	(2,092,191)	(1,719,598)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(571,830)	(13,096)	(95,160)	261,530
CASH AND CASH EQUIVALENTS, beginning of period	621,167	549,554	144,497	274,928
CASH AND CASH EQUIVALENTS, end of period	49,337	536,458	49,337	536,458

The accompanying notes are an integral part of these condensed financial statements.

CRYSTAL MOUNTAIN, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
For the Three Months Ended March 31, 1992 and 1991

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Special Use Permit

Crystal Mountain, Inc., utilizes acreage in the vicinity of Crystal Mountain under a Term Special Use Permit from the U.S. Department of Agriculture, Forest Service. According to this permit, the Company is required to pay a fee to the Forest Service. A graduated fee system based on net revenues and gross fixed assets is used. The resulting fee was approximately 2% of revenues in 1989, 1990 and 1991. The tentative fee is currently 1.81%. Crystal has negotiated a 40 year extension of its permit with the Forest Service

Land Improvements, Buildings and Equipment

Land improvements, buildings and equipment are recorded at cost. Depreciation of these assets is based on the straight-line method over the following estimated useful lives:

		1992	1991
Land Improvements	20 year	$2,547,453	$2,544,387
Buildings & Utilit	5 - 20 year	5,008,694	4,960,939
Lifts	15 - 20 year	5,833,404	5,768,952
Equipment	3 - 10 year	2,744,459	2,536,319
Equipment--Cap Lea	5 year	61,195	0
Totals		$16,195,205	$15,810,597

Maintenance, repairs and renewals which do not increase the value of property or extend useful lives are charged to expense as incurred.

Discretionary Fund

The Company elected in 1987 to set aside and accumulate funds, at in to be used for future Corporate purposes designated by the Board of The funds set aside total $344,084 and $328,316 at March 31, 1992 an Included in those funds are cash equivalents, defined as short term investments with a maturity date at purchase of three months or less; these cash equivalents amounted to $117,258 and $111,424 for 1992 and 1991, respectively.

Other

Inventories: Food service and fuel inventories are stated at the lower of cost or market (first-in, first-out basis).

Other Assets: The costs of legal and bank fees incurred in acquiring long-term financing are being amortized over the loan term using the straight-line method.

Note 2: INCOME TAX

Pretax income through March 31, 1992 is offset by carryforward of net operating losses and tax credits, so no federal income tax is recorded in these statements. At September 30, 1991, Crystal approximately $2,100,000 of net operating loss carryforwards (expiring between 1993 and 2007) which can be used to offset future income subject to federal taxes. For financial statement purposes, the Company has approximately $1,600,000 of net operating loss carry expiring between 1993 and 2006.

In addition, the Company has unused general business credits investment and targeted jobs credits) of approximatley $242,000 expiring between 2000-2004. These credits can be used to reduce future income tax after use of loss carryforwards.

Note 3: DEFERRED INCOME

For September 30, 1990, deferred income represents proceeds from the sale of season passes for the subsequent ski season. In addition, deferred income results from advance payments by groups who have made reservations for later in the year and by ski school customers who prepay for lessons over a period of time.

Note 4: NOTES PAYABLE/SHORT-TERM BORROWING

The seasonal line has been increased from $1,000,000 to $1,500,000. This line must be paid off for at least 45 days during any one year.

	1991	1990
Line of Credit	$1,500,000	$1,000,000
Balance due Seafirst	$0	$0
Interest rate	Bank Base Rate Plus .75%	Bank Base Rate Plus .75%

CRYSTAL MOUNTAIN, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)
For the Three Months Ended March 31, 1992 and 1991

Note 5: LONG TERM DEBT

Long-term notes and contracts payable consist of the following:

	1991	1990
Note payable, bank, interest @ prime rate plus .75%. Due 2002	$3,358,000	$4,239,741
Notes payable to bank, 7% due 1983 to 1991	1,201	18,572
Contracts payable 12% due 1983 to 1991	8,658	8,658
Equipment purchase contract balance due 5/15/91	0	1,913
	$3,367,859	$4,268,884
Current portion	(9,859)	(29,143)
Total	$3,358,000	$4,239,741

The Company had secured a $5,650,000 long-term loan from Seafirst in June, 1988, due December 1, 2000. Interest is at the prime rate plus .75% and is secured by a $2,000,000 keyman life insurance on th life of the Company president and a lien on all property, inventories, accounts, and equipment held or hereafter acquired. The Company has assigned in trust to the lender all its interest and and rights under its Term Special Use Permit with the U S Forest Ser to the extent allowable under the terms of the permit.

On October 5, 1991, the Company amended and restated its loan agreement with agreement with Seafirst, expanding the long term loan from $5,193,000 to $6,200,000, and increasing its seasonal note from a maximum of $1,000,000 to $1,500,000, providing a total line of credit of $7,700,000. This line was reduced by a scheduled principal repayment of $287,000 made during the quarter ended June 30, 1991.

The Company is usually required to make a minimum principal repayment of $200,000 plus 50% of cash flow after a reinvestment allowance for capital additions. However, the Company can elect to skip its principal payment after any year in which skier visits are less than 320,000.

Note 6: LEASE OBLIGATIONS

Crystal leases certain office and kitchen equipment and automobiles under capitalized lease arrangements.

Note 7: OFFICER'S LIFE INSURANCE PLAN

The Company has provided a $271,000 face value, split dollar life insurance plan owned by the Company president. The policy has been assigned to the Company and is subject to the various stipulations in the correlated employment and split dollar insurance agreements dated March 20, 1986. No cash value adheres to the Company.

Note 8: COMMITMENTS AND CONTINGENCIES

Tax consequences which may arise relative to the current status of the lift ticket privilege are, under current regulations, undeterminable at this time.

Note 9: ENUMCLAW RENTAL

In January 1989, the Company leased general office premises in Enumclaw, Washington for five years. The future minimum rental payments are as follows:

1992	9,000
1993	12,000
	21,000

Note 10: 401K RETIREMENT PLAN

Effective January 1, 1991, the Company instituted a 401K retirement plan for employees who meet eligibility requirements.

Note 11: NOTES TO FINANCIAL STATEMENTS

Reference to the notes to financial statements for the year ended September 30, 1991 and to the form 10K of the same date.

CRYSTAL MOUNTAIN INC

QUARTER ENDED MARCH 31, 1992

Management's Discussion and Analysis of Financial Condition and the Resultas of Operation

For the quarter ended March 31, revenues of $4,874,089 were up 3% from those of the prior year. Warm weather impacted business adversely during the last two weeks of operation of the quarter, causing closure of the Resort on March 29.

Mountain and resort operations expense of $1,313,313 was up 28%. For the most part, this was a planned increase--for example, the snow cat grooming fleet was increased by 33% to provide a better quality product for customers. Some of the increase was due to higher than anticipated expense in maintaining equipment of all types.

Food services expense of $816,305 was up 3% to support increased revenues of 4%.

General and administrative expense was up 8% for the quarter due primarily to timing differences in expenditures. Year-to-date G & A was almost flat from last year to the current year, being up only two tenths of one percent.

Depreciation expense of $210,418 was down 1% from the previous year, reflecting reduced capital expenditures over the last two years.

Interest expense was down 55%, resulting from a combination of reduced interest rates and lower levels of debt. The Company pays an interest rate which is 3/4 percent plus the prime rate, and the prime rate has dropped steadily throughout the year.

No provision was made for income tax expense because loss carryforwards are sufficient to offset any taxable income which can be generated in the current year.

The result was a net income of $1,753,447, down 8% from the previous year.

CRYSTAL MOUNTAIN, INC.

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 15th day of May, 1992.

CRYSTAL MOUNTAIN, INC.

Date: May 15, 1992

By Tom Leonard
Tom Leonard

President

Date: May 15, 1992

By Arnold Rolfsrud
Arnold Rolfsrud

Manager, Finance

0 32395

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[redacted]

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

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92.0058

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 0-19831

CURAFLEX Health Services, Inc.
(Exact name of registrant as specified in its charter)

112-11 (8)

PROCESSED BY
MAY 14 1992

Delaware
(State or other jurisdiction of incorporation or organization)

76-0169285
(I.R.S. Employer Identification No.)

9087 Arrow Route, Suite #280
Rancho Cucamonga, California
(Address of principal executive offi

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

1730
(zip code)

C34

Registrant's telephone number, including area code: (714) 941-3430

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x (1) NO * (2)

* The Company's Form 8A Registration Statement under Section 12 of Securities Exchange Act of 1934 was declared effective on March 19, 1992.

The number of shares outstanding of the registrant's Common Stock, $.001 par value, as of March 31, 1992 was 7,580,347 shares.

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PART 1 - FINANCIAL INFORMATION

ITEM - 1 - Financial Statements

CURAFLEX Health Services, Inc.
Consolidated Balance Sheets
(In thousands)

ASSETS	(Unaudited) March 31, 1992	December 31, 1991
Cash and cash equivalents	$29,400.7	$ 2,118.9
Accounts receivable (net)	16,549.3	14,448.5
Inventory	1,119.4	1,020.0
Prepaid expenses	696.2	596.6
Total current assets	47,765.6	18,184.0
Equipment, furniture and fixtures, (net)	2,269.1	2,053.4
Joint ventures and other assets	2,180.6	1,733.3
Total assets	$52,215.3	$21,975.7
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 1,811.0	$ 1,676.7
Accrued payroll	739.7	704.0
Other accrued liabilities	2,101.4	2,455.6
Current maturities of notes payable and obligations under capital leases (note 2)	400.3	6,155.8
Total current liabilities	5,052.4	10,992.1
Long-term notes payable and obligations under capital leases excluding current portion	91.7	104.2
Minority interest in consolidated joint ventures	108.8	56.3
Redeemable preferred stock (note 2):		
Series A preferred stock, par value $.001, authorized 2,781,860 shares; issued 2,721,954 in 1991	-	13,111.9
Series B preferred stock, par value $.001, authorized 707,673 shares; issued 629,674 in 1991	-	4,005.0
Series C preferred stock, par value $.001, authorized 325,000 shares; issued 296,627 in 1991	-	2,892.1
Common stockholders' equity (deficit) (note 2)		
Common stock, par value $.001, authorized 40,000,000 shares; issued 853,748 in 1991 and 7,580,347 in 1992	7.6	0.9
Additional paid-in capital	75,506.5	20,126.3
Accumulated deficit	(28,551.7)	(29,313.1)
Total common stockholders' equity (deficit)	46,962.4	(9,185.9)
Total liabilities and stockholders' equity (deficit)	$52,215.3	$21,975.7

See accompanying notes to the consolidated financial statements

CURAFLEX Health Services, Inc.
Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	1992	1991
Net revenue	$12,454.0	$7,075.8
Cost of revenue	5,985.9	3,681.4
Gross margin	6,468.1	3,394.4
Selling, general and administrative expense	4,694.8	3,151.9
Provision for estimated uncollectable accounts receivable	687.5	330.5
Operating income (loss)	1,085.8	(88.0)
Interest income (expense) (net)	(125.2)	4.0
Minority interest in net (income) loss from consolidated joint ventures	(147.4)	34.0
Equity in net income (loss) of unconsolidated joint ventures	(19.2)	76.6
Income before taxes and extraordinary item	794.0	26.6
Provision for income taxes (note 3)	(332.6)	(11.0)
Income before extraordinary item	461.4	15.6
Extraordinary item, utilization of operating loss carryforwards (note 3)	300.0	11.0
Net income	$ 761.4	$ 26.6
Income per common shares (note 1):		
Income before extraordinary item	$ 0.08	$ 0.00
Extraordinary item	0.05	0.00
Net income per common share	$ 0.13	$ 0.00
Weighted average common and common equivalent shares outstanding	5,699,810	5,562,550

See accompanying notes to the consolidated financial statements

CURAFLEX Health Services, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	1992	1991
Cash flows from operating activites:		
Net income	$ 761.4	$ 26.6
Adjustments to reconcile net income to net cash used by operating activities:		
Provision for estimated uncollectable accounts receivable	687.5	330.5
Depreciation	140.4	102.4
Increase in receivables	(2,788.3)	(1,654.8)
Increase in inventory	(99.4)	(50.0)
(Increase) decrease in prepaids	(99.6)	75.0
Increase in other assets	(447.3)	(162.8)
Decrease in accounts payable and accrued liabilities	(184.2)	(1,104.6)
Net cash used by operating activities	(2,029.5)	(2,437.7)
Cash flows from investing activities:		
Purchase of equipment, furniture and fixtures	(351.1)	(276.3)
Minority interest in joint ventures	52.5	(53.7)
Net cash used by investing activities	(298.6)	(330.0)
Cash flows from financing activities:		
Repayment of notes payable and lease obligations	(7,018.0)	(46.5)
Borrowings under notes payable	1,250.0	1,064.0
Exercise of stock options	37.4	--
Sale of common stock, net of issuance cost	35,346.0	--
Issuance costs of preferred stock	(5.5)	(42.3)
Net cash provided by financing activities	29,609.9	975.2
Net increase (decrease) in cash and cash equivalents	27,281.8	(1,792.5)
Cash and cash equivalents at beginning of year	2,118.9	2,290.9
Cash and cash equivalents at end of year	$29,400.7	$ 498.4

See accompanying notes to consolidated financial statements

CURAFLEX Health Services, Inc.
Consolidated Statements of Cash Flows (continued)
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	1992	1991
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 175.1	$ 97.2
Income taxes	63.3	-
Supplemental schedule of non-cash financing activities:		
Conversion of preferred stock to common stock	$20,009.0	-

See accompanying notes to consolidated financial statements

CURAFLEX Health Services, Inc.
Notes to Consolidated Financial Statements

(1) Operations and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such regulations. The consolidated financial statements reflect all adjustments and disclosures which are, in the opinion of management, necessary for a fair presentation. All such adjustments are of a normal recurring nature. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes that are contained in the Company's initial Registration Statement on Form S-1 filed as of March 19, 1992. The results of operations for the interim periods are not necessarily indicative of the results of the full fiscal year.

Earnings per Share

Earnings per share are computed by dividing net income by the weighted average number of common and common equivalent shares outstanding.

Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, common shares issued for consideration below the initial public offering price (the "IPO Price") and common stock equivalents granted or issued with exercise prices below the IPO Price during the 12-month period preceding the date of the initial filing of the Registration Statement have been included in the calculation of weighted average common and common equivalent shares, using the treasury stock method, as if they were outstanding for all periods presented.

The computations of the weighted average common and common equivalent shares outstanding follow:

	Three Months Ended March 31,	
	1992	1991
Weighted average number of common shares outstanding during the year	1,051,550	842,953
Incremental shares assumed to be outstanding pursuant to SEC Staff Accounting Bulletin No. 83:		
Assumed conversion of Series C preferred stock	-	342,262
Assumed exercise of stock options and warrants	51,198	285,992
Dilutive effect of assumed conversion of preferred stock and exercise of options and warrants	4,597,062	4,091,343
Weighted average number of common and common equivalent shares	5,699,810	5,562,550

(2) Initial Public Offering

On March 19, 1992 the Company completed its initial public offering of 3,000,000 common shares at $13.00 per share. Proceeds from the sale of the common stock, net of issuance cost, totalled $35,346,000. Upon the closing of the offering, all outstanding shares of preferred stock were converted to common stock. Following the completion of the Company's initial public offering, the Company on March 31, 1992 repaid its outstanding borrowings of $7,000,000 on the bank line of credit and terminated the agreement.

(3) Income Taxes

The provision for income taxes in the quarter ended March 31, 1992 consists of the following:

Federal - current	$270,000
State - current	62,600
Total provision	$332,600

The income tax provision for the quarter ended March 31, 1992 consists of charges in lieu of income taxes of $300,000 which would have been required to be paid in the absence of net operating loss carryforwards.

(4) Commitments and Contingencies

The Company has entered into a 10-year agreement to relocate its corporate offices. Commencement of the new lease is anticipated to begin July 1992. Future minimum lease payments in connection with this agreement for the years ending December 31 are as follows: 1992, $163,482; 1993, $344,964; 1994, $362,964; 1995, $471,853; 1996, $471,853; thereafter, $3,411,862.

(5) Subsequent Events

Subsequent to the end of the quarter, the underwriters for the Company's initial public offering exercised their over-allotment option for 450,000 shares. Following the exercise, the total common shares issued and outstanding were 8,030,347.

(6) Acquisitions

On May 8, 1992, the Company announced the signing of a Letter of Intent to acquire the assets of Home Health Depot, a regional infusion therapy provider located in Kansas City, Missouri. The acquisition is subject to certain conditions including the finalization of a definitive agreement.

ITEM 2

CURAFLEX HEALTH SERVICES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Revenue for the three months ended March 31, 1992 increased by 76% over the same period for the prior year. This revenue increase resulted primarily from volume increases in infusion therapy at established service centers.

Gross margin as a percentage of revenue for the three months ended March 31, 1992 increased from 48.0% to 51.9% when compared to the same period for the prior year. Selling, general and administrative expenses, as a percentage of revenue for the three months ended March 31, 1992, decreased from 44.5% to 37.7%, when compared to the same period for the prior year. These changes principally represent operating efficiencies gained from increased sales volume.

Net interest expense for the three months ended March 31, 1992 increased by $129,000 to $125,000 as compared to the same period of the prior year. This increase resulted primarily from increased debt during the three months ended March 31, 1992 as compared to the same period of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The Company fully repaid its bank line of credit, $7.0 million at the time of the Company's initial public offering, with proceeds from the offering. The Company terminated this secured bank line of credit on March 31, 1992 and is in the process of arranging a new bank line of credit with more favorable terms.

During the quarter, the Company received $35.3 million in net proceeds from its initial public offering. An additional $5.4 million in net proceeds was received in April 1992 through the exercise of the underwriters' option. With the proceeds, the Company is purchasing high-grade debt securities. These high-grade investments and cash totalled $29.4 million at March 31, 1992. The Company believes it has sufficient liquidity and capital resources to meet its needs for the next 24 months.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. CHANGES IN SECURITIES

Consistent with the terms of the Company's Restated Certificate of Incorporation, all outstanding shares of the Company's Series A, Series B and Series C Stock were converted into Common Stock upon the closing of the Company's initial public offering on March 26, 1992.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

The annual meeting of shareholders of the Company was held on January 7, 1992.

The following individuals were elected as directors of the Company:

Class I Directors (Terms expire in 1995)
Philip Green
Charles Laverty
James Yarter

Class II Directors (Terms expire in 1994)
C. Sage Givens
George Strong

Class III Directors (Terms expire in 1993)
Laurie Thomsen
Thomas McKinley

A proposal to approve the Company's Employee Stock Purchase Plan, as adopted by the Board of Directors, was approved by a vote of 521,919.7 shares of Common Stock and 2,701,608.8 shares of Preferred Stock, constituting 72% of the combined Common and Preferred Stock of the Company in favor with zero votes against.

During March of 1992, the Company's stockholders, acting by majority written consent, approved the Company's Directors Stock Option Plan. The number of share consenting was 546,263.3 shares of Common Stock and 2,852,881.9 shares of Preferred Stock, constituting 75% of the combined Common and Preferred shares of the Company.

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

New corporate headquarters lease attached as Exhibit I.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CURAFLEX Health Services, Inc.

By:

Charles A. Laverty
Chairman, Chief Executive Officer, and President
(Duly Authorized Officer)

Norman H. Werthwein
Senior Vice President, Finance and Operations
(Chief Financial Officer)

Date: May 11, 1992

PART II OTHER INFORMATION

ITEM 6

EXHIBIT I

OFFICE BUILDING LEASE

between

ONTARIO LAKESHORE PARTNERS, L.P.
a California limited partnership

("Landlord")

and

CURAFLEX HEALTH SERVICES, INC.
a Delaware corporation

("Tenant")

March 27, 1992

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ONE LAKESHORE CENTRE
OFFICE BUILDING LEASE

This lease (this "Lease") between Ontario Lakeshore Partners, L.P., a California limited partnership ("Landlord") and Curaflex Health Services, Inc., a Delaware corporation ("Tenant"), is dated for reference purposes only, as of March 27, 1992.

AGREEMENT

1. LEASE OF PREMISES

In consideration of the Rent (as defined at Section 5) and the provisions of this Lease, Landlord leases to Tenant and Tenant leases from Landlord the Premises (defined below). The Premises are located within the Building (defined below) and Project (defined below). Tenant shall have the nonexclusive right (unless otherwise provided herein) in common with the Landlord, other tenants, subtenants and invitees, to use the Common Areas (defined below).

2. DEFINITIONS

As used in this Lease, the following terms shall have the following meanings:

2.1 Base Rent (Initial). $305,340.00 per year, based on 25,445 square feet of Rentable Area (defined in Section 2.12) at an initial rent of $1.00 per square foot per month, as further described in Article 5.

2.2 Commencement Date. The earliest of (a) the date Tenant begins conducting business operations from the Premises, or (b) the date Landlord delivers the entire Premises to Tenant with the Premises and the Tenant Improvements (as defined in Section 11) are Substantially Completed (as defined in Section 2.16). Landlord shall give Tenant not less than ten (10) business days' prior written notice of the date on which it will so deliver the Premises to Tenant. The Commencement Date is anticipated to be on or before the date that is three (3) months after the date hereof. Landlord and Tenant shall execute an amendment to this Lease, in that format attached as Exhibit "A," designating the actual Commencement Date. If, for any reason other than Tenant Delay (as defined in Section 2.16) or Force Majeure (as defined in Section 36) Landlord fails to deliver the Premises to Tenant ready for Tenant's occupancy and the Commencement Date does not occur on or before four (4) months from Landlord's receipt of Tenant's approved construction plans (which Landlord agrees to cause to be prepared not more than two (2) weeks after Tenant's approval of the preliminary plans which have been submitted to Tenant for Tenant's review and approval), then Tenant shall be entitled to two (2) days' free Rent (at the rate in effect as of the Commencement Date) for each day after the end of such four (4) month period that Landlord fails so to deliver the Premises to Tenant. Except to the extent caused by Tenant Delay, if Landlord fails to deliver the Premises to Tenant ready for Tenant's occupancy and the Commencement Date does not occur on or before eight (8) months from Landlord's receipt of Tenant's approved improvement plans, Tenant may terminate this Lease by giving written notice thereof to Landlord.

2.3 Common Areas. The Building lobbies, common corridors and hallways, public restrooms, garage and parking areas, stairways, elevators, sidewalks, driveways and other generally understood public or common areas. Landlord shall have the right to regulate or restrict the use of the Common Areas.

2.4 Expense Stop. $5.75 per square foot of Rentable Area per year, or $146,308.75 per year based on 25,445 square feet of Rentable Area. The Expense Stop has been calculated as an amount equal to Tenant's Proportionate Share of Real Estate Taxes and Operating Expenses as reasonably estimated by Landlord for the 1992 calendar year on the basis of the Project as Fully Occupied (as all such capitalized terms are defined in Article 5).

2.5 Expiration Date. Ten (10) years from the Commencement Date, or such later date to which the Term hereof is extended or such earlier date as of which this Lease is terminated, in each case, in accordance with the provisions of this Lease.

2.6 Index. The Consumer Price Index for all Urban Consumers issued by the Bureau of Labor Statistics ("BLS") for the Los Angeles-Anaheim-Riverside, California area, 1982-1984 = 100, or if such index ceases to exist, such other index issued by the BLS or successor agency for the Riverside/San Bernardino area.

2.7 Mailing Addresses.

2.7.1 Landlord's Mailing Address. 9740 Scranton Road, Suite 350, San Diego, California 92121, Attn: Dennis Cruzan.

2.7.2 Tenant's Mailing Address. 9087 Arrow Route, Suite 280, Rancho Cucamonga, California 91730, Attn: Kevin Higgins.

2.8 Monthly Installments of Base Rent (Initial). $25,445.00 per month, based on 25,445 square feet of Rentable Area, at an initial rent of $1.00 per square foot.

2.9 Parking. Tenant shall be permitted to park four vehicles per 1,000 leased square feet of Usable Area of the Premises (or portion thereof) on a nonexclusive basis in the area(s) designated by Landlord for parking, which shall include one (1) parking space per 1,000 square feet of Usable Area (as defined in Section 2.12) of the Premises within the covered parking facility. The cost of such parking is included in the Base Rent. Tenant shall abide by any and all parking regulations and rules established from time to time by Landlord or Landlord's parking operator. Landlord reserves the right to separately charge Tenant's guests and visitors for parking.

2.10 Premises. 19,247 square feet of Rentable Area being all of the seventh floor of the Building, plus 6,198 square feet of Rentable Area on the sixth floor of the Building, for a total of 25,445 square feet of Rentable Area, as depicted on Exhibit "B."

2.11 Project. The eight-story office building consisting of approximately 149,883 square feet of Rentable Area of which the Premises are a part (the "Building"), and a two-story office building consisting of approximately 26,931 square feet of Rentable Area, and any other improvements on the real property (the "Property") located at One Lakeshore Centre, 3281 Guasti Road, Ontario, California 91764, and further described at Exhibit "C." The Project is commonly known as "One Lakeshore Centre."

2.12 Rentable and Usable Area. As to both the Premises and the Project, the respective measurements of floor area as may from time to time be subject to lease by Tenant and all tenants of the Project, respectively, shall be determined by Landlord's architect in accordance with BOMA standards. If Tenant increases the size of the Premises by leasing additional portions of the Building, prior to the commencement date of this Lease as to such additional portion of the Premises, Landlord shall notify Tenant, in writing, of the exact Rentable and Usable Area of the Premises, the Building and the Project, and such figures shall be subject to approval and verification by Tenant and its architect. The Rent, Excess Expenses and Tenant Improvement allowance payable pursuant to this Lease shall be adjusted accordingly.

2.13 Security Deposit. $25,445.00. See Section 28.

2.14 State. The State of California.

2.15 Substantial Completion. The term "Substantially Completed" shall mean: (a) Landlord has substantially completed all the work required to be performed by Landlord in accordance with Section 11 of this Lease, except punch-list items which shall thereafter be promptly completed; (b) Landlord has obtained a Certificate of Occupancy for the Building, or a Temporary Certificate of Occupancy for that portion of the Building that includes all of the Premises, and that portion of the Common Area necessary for Tenant's use and occupancy of the Premises; (c) Tenant has been provided with the number of parking spaces to which it is entitled under Section 2.9 of the Lease; (d) Tenant has continuous and uninterrupted access to the Premises; and (e) the elevators, systems and fixtures serving the Premises are in operation and in good working order.

2.16 Tenant's Delay. Tenant shall be responsible for any delay ("Tenant's Delay") in the commencement of or completion of the Tenant Improvements, and any increase in the cost of the Tenant Improvements, caused by (a) Tenant's requirements for the Tenant Improvements arising from delays caused by shortages or unavailability or extraordinary procurement time for non-building standard items (as defined in Exhibit "D") and movable wall partitions (with attached work stations); and (b) any delays, changes, additions or alterations caused or requested by Tenant pursuant to Section 5 of Exhibit "D."

2.17 Tenant's Proportionate Share. 14.28 percent, subject to adjustment as hereinafter described in this Section 2.17. Such share is computed on the basis of a fraction, the numerator of which is the Rentable Area of the Premises based on 25,445 square feet, and the denominator of which is the Rentable Area of the Project, as determined from time to time as provided in Section 2.12. The Project consists of two (2) buildings, with the Building containing a total Rentable Area of 149,833 square feet, and the Project containing a total Rentable Area of 176,764 square feet.

2.18 Tenant's Use Clause. The Premises are to be used for general office purposes only. See Article 8.

2.19 Term. The period commencing on the Commencement Date and expiring on midnight on the Expiration Date.

3. EXHIBITS AND ADDENDA.

The exhibits listed below are incorporated by reference in this Lease:

3.1 Exhibit "A". Commencement Date Amendment.

3.2 Exhibit "B". Floor Plan Showing the Premises.

3.3 Exhibit "C". Site Plan of the Project.

3.4 Exhibit "D". Work Letter Agreement.

3.5 Exhibit "E". Rules and Regulations.

3.6 Exhibit "F". Sign Criteria.

4. DELIVERY OF POSSESSION.

If for any reason Landlord does not deliver possession of the Premises to Tenant on the anticipated Commencement Date, Landlord shall not be subject to any liability for such failure, and the Expiration Date shall not change and the validity of this Lease shall not be impaired, but Rent shall be abated until delivery of possession. "Delivery of possession" shall be deemed to occur on the date Landlord Substantially Completes Landlord's work as defined in Sections 2.15 and 11. If Landlord permits Tenant to enter into possession of the Premises before the Commencement Date, such possession shall be subject to the provisions of this Lease, including, without limitation, the payment of Rent.

5. RENT.

5.1 Payment of Base Rent. Tenant agrees to pay the Base Rent for the Premises as follows:

Months 1 - 30	$1.00	per square foot of Rentable Area/month
Months 31 - 60	$1.30	per square foot of Rentable Area/month
Months 61 - 90	$1.60	per square foot of Rentable Area/month
Months 95 - 120	$1.90	per square foot of Rentable Area/month

Monthly installments of Base Rent shall be payable in advance on the first (1st) day of each calendar month of the Term. If the Term begins (or ends) on other than the first (or last) day of a calendar month, the Base Rent for the partial month shall be prorated on a per diem basis and payable on the Commencement Date or the first day of the last month of the term, respectively. Tenant shall pay Landlord the first Monthly Installment of Base Rent when Tenant executes the Lease, which shall be applied to the first (1st) full month of the Lease Term.

5.2 Project Operating Costs.

5.2.1 Payment. Subject to the provisions of this Article 5, Tenant shall pay Landlord as Rent, an amount which will not exceed Tenant's Proportionate Share of all Real Estate Taxes and all Operating Expenses (as both such capitalized terms are defined below), actually incurred by Landlord and attributable to the Project and its operation in excess of the Expense Stop (such excess is hereinafter referred to as "Excess Expenses").

5.2.2 Real Estate Taxes. "Real Estate Taxes" shall mean and include: (a) all general and special taxes, assessments, duties and levies, if any, payable (adjusted after protest or litigation, if any) for any part of the term, excluding penalties or discounts, on the Project or the Building; (b) any taxes which shall be levied on the rentals of the Building or Project in lieu of any such Real Estate Taxes in whole or in part; and (c) the expenses of contesting the amount or validity of any such taxes, charges or assessments, such expense to be applicable to the period of the item contested. Excluded from Real Estate Taxes shall be the following: (a) federal or state income taxes and any other taxes based on Landlord's net income; and (b) franchise taxes, if any.

5.2.3 Operating Expenses. "Operating Expenses" shall mean all expenses reasonably paid or incurred by Landlord, or on Landlord's behalf, as normally incurred for a Class A building in the area in which the Building is located, in respect to the management, repair, operating and maintenance of the Project and Building, but only to the extent that such expenses relate to the Project and Building), including: (a) salaries, wages and benefits of employees of Landlord engaged in the management, repair, operating and maintenance of the Project and Building; (b) payroll taxes, workmen's compensation, uniforms and related expenses for such employees; (c) the cost of all charges for oil, gas, steam, electricity, any alternate source of energy, heat, ventilation, air-conditioning, water, sewers and other utilities furnished to the Premises, Project and Building (including the Common Areas and leased areas thereof), together with any taxes on such utilities;

(d) the cost of painting non-tenant space; (e) the cost of all charges for rent, casualty, liability and fidelity insurance (excluding earthquake insurance, unless required by Landlord's lender on the Project) with regard to the Project and Building and the maintenance or operation thereof; (f) the cost of all supplies (including cleaning supplies), tools, materials and equipment, the rental thereof and sales and other taxes thereon, which would not be capitalized in accordance with generally accepted accounting principles; (g) the cost of all charges for window and other cleaning, janitorial, and security services; (h) charges of independent contractors; (i) the costs of normal repairs and replacements made by Landlord at its expense, which would not be capitalized in accordance with generally accepted accounting principles; (j) exterior and interior landscaping; (k) alterations and improvements to the Building and Project made by reason of the laws and requirements of any public authorities or the requirements of insurance bodies that were not in effect as of the date hereof, which costs will be amortized over the useful life of the alteration or improvement or expensed in accordance with generally accepted accounting principles;
(l) management fees, or if no managing agent is employed by Landlord, a sum in lieu thereof which is not in excess of the then prevailing rates for management fees of other Class A buildings in the area in which the Building is located;
(m) any costs incurred by Landlord in making capital improvements or other modifications to the Project or any part thereof that reduce the Operating Expenses, which costs will be amortized over the useful life of such improvement or modification; provided, however, the annual amortization amount will not exceed the reduction in Operating Expenses as projected by Landlord's accountant for the relevant year, and the amortization schedule will be extended accordingly, if necessary; (n) reasonable legal, accounting and other professional fees normally incurred in connection with the operation, maintenance and management of the Project and Building, except as provided below; (o) any assessments charged to the Project by the Centrelake Owners' Association; and (p) all other charges reasonably incurred and properly allocable to the repair, operation and maintenance of the Building and Project which are not capital expenditures according to generally accepted accounting principles. If the Project is not fully occupied, Operating Expenses shall be adjusted at the expiration of each calendar year as if the Building and Project were fully occupied. "Fully Occupied" shall be defined as occupancy of ninety-five percent (95%) of the Rentable Area of the Project. Excluded from Operating Expenses shall be the following: (aa) depreciation (except as provided above); (bb) interest on and amortization of

debts; (cc) leasehold improvements including redecorating made for tenants of the Project; (dd) brokerage commissions and advertising expenses for procuring new tenants of the Project; (ee) refinancing costs; (ff) other costs of any repair or replacement, other than as described specifically herein, which would be required to be capitalized under generally accepted accounting principles, (gg) Real Estate Taxes; (hh) the cost of any item included in Operating Expenses under clauses (a) through (p) to the extent that such cost is reimbursed by an insurance company or a condemnor or a tenant (except as a reimbursement of Operating Expenses) or any other party, but if at the time Operating Expenses are determined for a calendar year such reimbursement has not been made, such expenses may be included in Operating Expenses and an adjustment shall be made when and if such reimbursement is actually received; (ii) the cost of correcting defects in the construction of the Project or in the building equipment, except that conditions (not occasioned by construction defects) resulting from ordinary wear and tear will not be deemed defects for the purposes of this category; (jj) the cost of any work or service performed for or facilities furnished to any tenant of the Project to a greater extent or in a manner more favorable to such tenant than that performed for or furnished to Tenant and expenses in connection with service or other benefits of a type which are not provided Tenant but which are provided to another tenant or occupant; (kk) leasing commissions, attorneys' fees, costs and disbursements and other expenses incurred in connection with negotiations or disputes with tenants or other occupants or prospective tenants or associated with the enforcement of any lease or the defense of Landlord's title to or interest in the Project or any part thereof; (ll) costs incurred due to violation by Landlord or any tenant of the terms and conditions of any lease; (mm) costs incurred in operating the parking or commercial facilities within the Project if proceeds received by Landlord relating to such parking of commercial facilities exceed such costs; (nn) costs necessary to comply with or as a result of violation of "hazardous substance laws" (as hereinafter defined); (oo) sums paid to Landlord or affiliates of Landlord, or to any party as a result of a non-competitive selection process, for any services, supplies, or other materials, to the extent that the costs of such services, supplies or materials exceed the market rates therefor; (pp) except as specifically provided herein, amounts allocable to Landlord's general overhead and administrative expenses that are not related exclusively to the management of the Building (it being understood and agreed that any payments not excluded under this clause (pp) are intended to be covered under clause (l) above); and (qq) any other expenses that are not generally considered and treated as normal maintenance or operating expenses for Class A Buildings in the area in which the Project is located (including, but not limited to, depreciation or amortization (except as specifically hereinabove provided), financing costs, ground lease payments, and charitable contributions (other than payments in reasonable amounts to local business associations)). Total Real Estate Taxes and Operating Expenses charged to Tenant shall not exceed Tenant's Proportionate Share of total actual Project Real Estate Taxes and Operating Expenses respectively incurred by Landlord for the Project.

5.2.4 Limitation on Excess Expenses. For the purpose of calculation of Tenant's Excess Expenses in the event of any increase in Real Estate Taxes resulting from "change in ownership" (within the meaning of California Revenue and Taxation Code Sections 60-62 and any regulations thereunder) of the Building or the Project, Tenant's Proportionate Share of Real Estate Taxes payable as a result thereof shall not exceed the lesser of (a) Tenant's Proportionate Share of the actual increases in Real Estate Taxes resulting therefrom or attributable thereto, and (b) (i) the percentage increase of (A) the Index in the year as to which Real Estate Taxes are to be calculated and the month in which the reassessment first occurred over (B) the Index as of the month in which this Lease was entered into multiplied by (ii) Tenant's Proportionate Share of Real Estate Taxes in the month immediately prior to the first such reassessment. To the extent assessments are made for improvements which would benefit the Building (other than assessments specifically identified and disclosed in writing by Landlord to Tenant prior to the date hereof), including assessments for street and sidewalk improvements, sewers, storm drains, street trees and street lighting: (i) if under the laws then in force such assessments may be evidenced by improvement or other bonds or paid in annual installments, Landlord shall cause such improvement or other bonds to be paid at the maximum number of annual installments, and in such event Tenant shall pay its Proportionate Share of each installment accruing during the Term; and (ii) if such assessments must be paid by Landlord in a lump sum, such assessments shall be prorated over the useful life calculated in years (as determined by reference to relevant Internal Revenue Code depreciation tables) of such improvements by dividing such useful life into the total amount of the assessment for such improvement, and the quotient thereof plus interest on the unpaid balance at eight percent (8%) per annum shall be deemed to be the average yearly cost of such improvements, and Tenant shall pay its Proportionate Share of each such average yearly cost of such improvements accruing during the Term.

5.2.5 Method of Payment. In order to provide for current payments on account of Excess Expenses Tenant shall, at Landlord's request, pay as additional rent, an amount equal to Tenant's Proportionate Share of the Excess Expenses due for the ensuing twelve (12) months, as estimated by Landlord from time to time, in twelve (12) equal monthly installments, commencing on the first day of the month following the month in which Landlord notifies Tenant of the amount. It is the intention hereunder to estimate the amount of the Excess Expenses for each calendar year and then to adjust such estimate in the following year based on the actual Excess Expenses incurred or paid by Landlord. On or before March 1 of each calendar year (or as soon thereafter as is practical), Landlord or the building manager shall deliver to Tenant a reasonably detailed statement, certified by Landlord, of Tenant's Proportionate Share of the Excess Expenses for the preceding calendar year. If Tenant's Proportionate Share of the actual Excess Expenses for the previous calendar year exceeds the aggregate of the estimated monthly payments made by Tenant for such year, Tenant shall within fifteen (15) days of receipt of the statement, tender to Landlord an amount equal to such excess as additional rent. If such aggregate of the estimated monthly payments exceeds Tenant's Proportionate Share of the actual Excess Expenses for such calendar year, then Landlord shall credit against Tenant's next ensuing monthly installment or installments of the Base Rent an amount equal to such difference until the credit is exhausted. When a credit is due from Landlord on the Termination Date, Tenant shall be entitled to receive the amount of the credit in the form of payment from Landlord, provided, however, that Landlord may, in lieu of such payments, apply the credit against any Rent which is due but not paid on said date. No interest or penalties shall accrue on any amounts which Landlord is obliged to credit or pay to Tenant. The obligations of Tenant and Landlord to make payments or credits required hereunder shall survive the Termination Date. Each statement given by Landlord or the Building Manager pursuant to this Lease shall be conclusive and binding upon Landlord and upon Tenant, unless, in Tenant's case, within sixty (60) days after the receipt of such statement Tenant shall notify Landlord that it disputes the correctness of the statement, specifying the particular respects in which it is claimed to be incorrect. If such dispute shall not have been settled by agreement, then, pending the legal determination of such dispute by a later agreement or litigation, Tenant shall pay additional rent in accordance with such statement and such payment shall be without prejudice to Tenant's position. If the dispute shall be determined in Tenant's favor, Landlord shall forthwith credit Tenant with the amount of Tenant's overpayment of additional rent resulting from compliance with Landlord's statement. Landlord shall grant Tenant reasonable access to Landlord's books and records for the purpose of verifying the Real Estate Taxes and Excess Expenses. If the Commencement Date is other than January 1, Tenant 's Proportionate Share of Excess Expenses for the calendar year in which the Commencement Date occurs shall be multiplied by a fraction, the numerator of which shall be the number of days from the Commencement Date to the following December 31, and the denominator of which shall be 365.

5.3 Definition of Rent. All costs and expenses which Tenant assumes or agrees to pay to Landlord under this Lease shall be deemed "Additional Rent" (which, together with the Base Rent, is sometimes referred to as the "Rent"). The Rent shall be paid to the Building Manager (or other person) at such place as Landlord may from time to time designate in writing, without any prior demand therefore and without deduction or offset, in lawful money of the United States of America.

5.4 Rent Control. If the amount of Rent or any other payment due under this Lease violates the terms of any governmental restrictions on such Rent or payment, then the Rent or payment due during the period of such restrictions shall be such lower amount as may be the maximum amount allowable under those restrictions.

5.5 Taxes Payable by Tenant. In addition to the Rent and any other charges to be paid by Tenant hereunder, Tenant shall reimburse Landlord upon demand for any and all taxes payable by Landlord (other than federal or state income taxes and other taxes otherwise excluded from Tenant's payment or reimbursement obligations under this Article 5) which are not otherwise reimbursable under this Lease, whether or not now customary or within the contemplation of the parties, to the extent that such taxes are allocable to the period between the Commencement Date and the Expiration Date, where such taxes are upon, measured or reasonably attributable to (a) the cost or value of Tenant's equipment, furniture, fixtures and other personal property located in the Premises, or the cost or value of any leasehold improvements made in or to the Premises by or for Tenant, other than building standard work made by Landlord, regardless of whether title to such improvements is held by Tenant or Landlord; (b) the gross or net Rent payable under this Lease, including, without limitation, any rental or gross receipts tax levied by any taxing authority with respect to the receipt of the Rent hereunder; (c) the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof; or (d) this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises. Landlord hereby represents and warrants that as of the date hereof and as of the Commencement Date there are and will be no such taxes payable or accruing (except under clause (a)) and contests pending in connection with any such taxes. Tenant reserves the right, at its sole expense, to seek a reduction in the assessed valuation of the Project and to contest to the applicable government taxing authority in good faith the amount of or legality of any tax or assessment which it is obligated to pay pursuant to any provisions of this Article 5 or otherwise, so long as such contest shall not subject Landlord to any criminal penalty or to any imminent loss of ownership or use or occupancy of the Project, the Building or the Premises. If Tenant elects so to contest any such tax or assessments, and pending the outcome of any such contest, Tenant may defer the payment thereof provided that before delinquency of any such tax or assessment Tenant shall: (a) give Landlord written notice of Tenant's intention to make such contest; (b) indemnify and hold Landlord harmless from any costs, expenses, penalties or fees (including actual attorneys' fees) arising out of or in connection with such contest; and (c) upon termination of the contest pay all interest and penalties due by reason of such contest. If requested by Tenant, Landlord shall, at no cost to Tenant, execute or join in the execution of any instrument or document necessary in connection with any such contest.

6. INTEREST AND LATE CHARGES.

If Tenant fails to pay Base Rent when due, the unpaid amounts shall bear interest at the maximum rate then allowed by law. Tenant acknowledges that the late payment of any Monthly Installment of Base Rent will cause Landlord to lose the use of that money and incur costs and expenses not contemplated under this Lease, including, without limitation, administrative and collection costs and processing and accounting expenses, the exact amount of which is extremely difficult to ascertain. Therefore, in addition to interest, if any such installment of Base Rent is not received by Landlord within ten (10) days from the date it is due, Tenant shall pay Landlord a late charge equal to ten percent (10%) of such installment. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for the loss suffered from such nonpayment by Tenant. Acceptance of any interest or late charge shall neither constitute a waiver of Tenant's default with respect to such nonpayment by Tenant nor prevent Landlord from exercising any other rights or remedies available to Landlord under this Lease. In addition, if Tenant fails to pay Additional Rent or other amounts or charges which Tenant is obligated to pay under the terms of this Lease and such failure is not cured within ten (10) days after written notice thereof from Landlord, Tenant shall pay interest and late charges from the date such payments were due in accordance with this Section 6.

7. OPTIONS TO EXTEND TERM.

7.1 Options. Subject to the provisions of Section 7.5, Tenant shall have two (2) options to extend the term of this Lease for a period of five (5) consecutive years each (the "Options"), provided Tenant gives Landlord written notice of its election to exercise the respective Option at least 180 days (but no earlier than one (1) year) prior to the expiration of the term of this Lease then in effect. If for any reasons the Term is not extended by the first five (5) year Option, then all rights to exercise the subsequent Option is terminated. Time is of the essence.

7.2 Determination of Base Rent and Expense Stop.

In the event Tenant elects to exercise either Option, the Base Rent and Expense Stop shall be adjusted to be at ninety-five percent (95%) of the "prevailing market rate" determined as set forth below.

7.3 Determination of Prevailing Market Rate.

7.3.1 As used herein, the term "prevailing market rate" shall mean the base annual rental (taking into account applicable terms and adjustment provisions, and including the Expense Stop, which shall be deemed to be a function of prevailing market rate) for space of comparable size and location in the Building to the Premises then being offered for rent in other buildings similar in age and quality to the Building located in Ontario, California. Within thirty (30) days from Landlord's receipt of Tenant's notice of exercise of an Option pursuant to Section 7.1, Landlord shall give Tenant written notice of Landlord's determination of the prevailing market rate for the space in question. If Tenant disputes Landlord's determination of the prevailing market rate, Tenant shall so notify Landlord within ten (10) days following Landlord's notice to Tenant of the prevailing market rate and such dispute shall be resolved as follows:

(a) Within thirty (30) days following Landlord's notice to Tenant of the prevailing market rate, Landlord and Tenant shall meet no less than two (2) times, at a mutually agreeable time and place, to attempt to resolve any such disagreement.

(b) If within this thirty (30) day period Landlord and Tenant cannot reach agreement as to the prevailing market rate, they shall each select one appraiser to determine the prevailing market rate. Each such appraiser shall arrive at a determination of the prevailing market rate and submit his conclusions to Landlord and Tenant within thirty (30) days of the expiration of the thirty (30) day consultation period described in Section 7.3.1(a).

(c) If only one appraisal is submitted within the requisite time period, it shall be deemed to be the prevailing market rate. If both appraisals are submitted within such time period, and if the two appraisals so submitted differ by less than ten percent (10%) of the higher of the two, the average of the two shall be the prevailing market rate. If the two appraisals differ by more than ten percent (10%) of the higher of the two, then the two appraisers shall immediately select a third appraiser who will within thirty (30) days of his selection make a determination of the prevailing market rate, which determination shall be conclusive.

(d) All appraisers specified pursuant hereto shall be members of the American Institute of Real Estate Appraisers with not less than five (5) years' experience appraising commercial properties in the area in which the Project is located. Each party shall pay one half of the cost of the appraisal services plus one half of any other costs incurred in the arbitration.

7.3.2 In the event the appraiser has not determined the prevailing market rate as of the commencement date of the Option term, Tenant shall temporarily pay Landlord the same Base Rent as paid by Tenant in the month immediately preceding the commencement of the Option term, plus a thirty percent (30%) increase, until such time as the appraiser determines the new Base Rent; and there shall be a corresponding adjustment in the Expense Stop, based on the manner of computation of the Expense Stop hereunder. In the event the appraiser's determination of the prevailing market rate exceeds the amount of Base Rent required to be paid by Tenant as of the commencement date of the Option term, within ten (10) days after written notice, Tenant shall pay Landlord the total amount of the deficiency, if any, between the prevailing market rate and the Base Rent actually paid. Alternatively, if Tenant has paid more Base Rent than was finally determined by the appraiser to be the prevailing market rate, Tenant shall be entitled to a credit against future sums payable by Tenant under the terms of the Lease.

7.4 Nonassignability. The Options herein granted to Tenant are not assignable separate and apart from this Lease.

7.5 Conditions to Exercising Options. Tenant shall not have the right to exercise either Option or the rights or options to expand provided under Article 29, or to extend the term of this Lease or to lease additional space pursuant to any such exercise, if any of the following occur:

7.5.1 Notice of Default. During the time commencing from the date Landlord gives to Tenant a written notice that Tenant is in default under any provision of this Lease, and continuing until the default alleged in said notice is cured;

7.5.2 Delinquent Payments. During the period of time commencing on the day after a monetary obligation to Landlord is due from Tenant and unpaid (without any necessity for notice thereof to Tenant) continuing until the obligation is paid;

7.5.3 Habitual Default. In the event that Landlord has given to Tenant three (3) or more notices of default in the payment of Base Rent, whether or not the defaults are cured, during the twelve (12) month period prior to the last day on which Tenant is entitled to exercise the Option.

7.6 No Extension. The period of time within which an option may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise the Option because of the foregoing provisions.

7.7 Termination of Options. All rights of Tenant shall terminate and be of no further force or effect, even after Tenant's due and timely exercise of an Option, if, after such exercise, but prior to the commencement date of the new term, any monetary default occurs under this Lease, which is not cured within five (5) days after written notice therof to Tenant from Landlord.

7.8 Effect of Waiver. Landlord's waiver of its right to terminate this Lease due to Tenant's default in any instance shall not be deemed a waiver of the conditions precedent in the Sections of this Lease pertaining to the Option.

8. USE OF THE PREMISES.

8.1 Compliance with Laws. Tenant shall use the Premises solely for the purposes set forth in Tenant's Use Clause. Tenant shall not use or occupy the Premises in violation of (a) any covenant, condition or restriction affecting the Building or Project or the certificate of occupancy issued for the Building or Project, all duly issued or recorded against the Project, or the rules and regulations attached as Exhibit "E" to this Lease, copies of which Landlord delivered to Tenant prior to the date hereof; and (b) any applicable law. Tenant shall, upon notice from Landlord, immediately discontinue any use of the Premises which is declared by any governmental authority having jurisdiction to be a violation of law or the certificate of occupancy. Tenant, at Tenant's own cost and expense, shall comply with all laws, ordinances, regulations, rules and/or any directions of any governmental agencies or authorities having jurisdiction which shall, by reason of the nature of Tenant's use or occupancy of the Premises, impose any duty upon Tenant or Landlord with respect to the Premises or its use or occupation; provided, however, that Tenant shall not be required to pay costs for capital improvements or structural additions or alterations. Tenant shall not do or permit to be done anything which will invalidate or increase the cost of any fire, extended coverage or other insurance policy covering the Building or Project and/or property located therein and shall comply with all rules, orders, regulations, requirements and recommendations of the Insurance Services Office or any other organization performing a similar function. Tenant shall promptly, upon demand, reimburse Landlord for any additional premium charges for such policy by reason of Tenant's failure to comply with the provisions of this Lease. Tenant shall not do or permit anything to be done in or about the Common Area which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or Project to use and enjoy their premises or the Common Area, injure or annoy them or use or allow the Common Area to be used for any improper, immoral, unlawful or objectionable purpose. Tenant shall not do or permit the Premises to be used for any unlawful purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall not commit or suffer to be committed any waste in or upon the Premises.

8.2 Tenant's Right to Contest. Tenant will have the right to contest by appropriate proceedings diligently conducted in good faith in the name of Tenant or with the prior consent of Landlord (which will not be unreasonably withheld or delayed), in the name of Landlord, or both, without cost of expense to Landlord, the validity or application of any law, ordinance, order, rule, regulation or legal requirement of any nature, other than imposed by Landlord pursuant to this Lease and Exhibit "E" attached hereto. If compliance with any law, ordinance, order, rule, regulation or requirement may legally be delayed pending the prosecution of any proceeding without incurring any lien, charge, or liability of any kind against the Premises, or Tenant's interest in the Premises, and without subjecting Tenant or Landlord to any liability, civil or criminal, for failure to comply, Tenant may delay compliance until the final determination of the proceeding. Even if a lien, charge or liability may be incurred by reason of any delay, Tenant may contest and delay, so long as (a) the contest or delay does not subject Landlord to criminal liability and (b) Tenant furnishes to landlord security, reasonably satisfactory to Landlord, against any loss or injury by reason of any contest or delay. Landlord will not be required to join any proceedings pursuant to this Section unless the provisions of any applicable law, rule, or regulation at the time in effect requires that the proceedings be brought by or in the name of Landlord, or both. In that event Landlord will join the proceedings or permit them to be brought in its name if Tenant pays all related expenses.

8.3 Landlord's Warranty. Landlord represents and warrants to Tenant that as of the date hereof and upon the delivery of possession of the Premises to Tenant the Premises are and will be in compliance with all laws, ordinances, orders, rules, regulations, and other governmental requirements relating to the use, condition, and occupancy of the Premises, and all rules, orders, regulations, and requirements of the board of fire underwriters or insurance service offices, or any similar body having jurisdiction over the Premises and the Building of which the Premises are a part.

8.4 Compliance with Environmental Laws. With respect to the Premises, the Building and the Project, Landlord represents, warrants, covenants and agrees as follows:

(a) Landlord has undertaken all appropriate inquiry concerning the prior uses of the Project in connection with hazardous or toxic substances, as required by Landlord's construction lender for the Project, including, but not limited to that certain Environmental Liability Assessment prepared by Ford C. Hart Associates, Inc. and dated August 23, 1989.

(b) Landlord has no knowledge and has received no notice of any pollution, health, safety, fire, environmental, severage or building code violation, asbestos, PCBs, PCB articles, PCB containers, contaminated electrical equipment, as those terms are defined in any "hazardous substance laws" (as hereinafter defined); Landlord has no knowledge that the Premises, the Project or the ground under or about the Project is contaminated with or contains any hazardous or toxic substance, pollutant, contaminants, or petroleum, including crude oil or any fraction of them, or contains any underground storage tank; Landlord has no knowledge that the Project has been, or is it currently used, for the generation, transportation, treatment, storage, or disposal of hazardous or toxic substances, pollutants, contaminants, or petroleum, including crude oil or any fraction thereof; Landlord has no knowledge that the Project contains any conditions that could result in recovery by any governmental or private party of remedial or removal costs, natural resource damages, property damages, damages for personal injuries, or other costs, expenses, or damages or could result in injunctive relief of any kind arising from any alleged injury or threat of injury; Landlord has no knowledge that the Project is subject to investigation, nor is it currently in administrative or judicial litigation regarding any environmental conditions, such as alleged noncompliance or alleged contamination.

(c) Landlord has no knowledge that any part of the Project has been used in connection with hazardous or toxic substances, pollutants, contaminants, or petroleum, including crude oil or any fraction of them, as defined in any of the hazardous substance laws. No releases of hazardous of toxic substances, pollutants, contaminants, or petroleum, including crude oil or any fraction of them, as such terms are defined under the hazardous substance laws, has occurred from the Project into the environment as a result of the actions or omissions of Landlord or, to the best of Landlord's knowledge, any prior owner or operator of the Property, and no threat of such release exists.

(d) Landlord will indemnify, hold harmless, protect and defend Tenant, its directors, officers, employees and agents, and any assignees, subtenants, or successors to Tenant's interest in the Premises, their directors, officers, employees, and agents, from and against any and all losses, claims, damages, penalties, and liability, including all out-of-pocket litigation costs and the reasonable fees and expenses of counsel, including without limitation all consequential damages, directly or indirectly arising out of the use, generation, storage, release or disposal of hazardous materials by Landlord, its agents or contractors prior to execution of this Lease or at any time after execution; and from and against the cost of any required repairs, cleanup, or detoxification and any closure or other required plans to the full extent that such action is attributable directly or indirectly, to the presence or use, generation, storage, release, threatened release, or disposal of hazardous materials by Landlord, its agent or contractors on, under, or in the Project prior to execution of this Lease. The provisions of this paragraph (d) will survive the expiration or termination of this Lease.

(e) If any cleanup, repair, detoxification, or other similar action is required by any governmental or quasi-governmental agency for any reason other than the acts or omissions of Tenant, its agents, or contractors, at any time, and such action requires that Tenant be closed for business or access be denied for greater than a twenty-four (24) hour period, then the Rent will be abated entirely during the period beyond twenty-four (24) hours. If the closure or denial of access persists in excess of thirty (30) days then, at Tenant's election by written notice to Landlord, this Lease will terminate as of the commencement of such closure.

(f) In this Lease, "hazardous materials" shall include, but is not limited to substances defined as "hazardous substances," "hazardous materials," or "toxic substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 6901, et seq., and those substances defined as hazardous, toxic, hazardous wastes, toxic wastes, or as hazardous or toxic substances by any law or statute now or after this date in effect in the State; and the regulations adopted and publications promulgated pursuant to those laws (collectively, "hazardous substance laws").

8.5 Landlord's Use.

(a) Landlord shall maintain the Building as a Class-A office building consistent with other buildings in the area including the furnishing of engineering and other services necessary to accomplish the same.

(b) Landlord shall make repairs, additions and improvements required by any governmental authority which are not required to be made by Tenant as provided in Section 8.1, as soon as reasonably possible, and shall take all actions necessary to ensure the continued lawful operation of the Project at all times. If the making of such repairs, additions or improvements, or Landlord's failure or delay in making the same as and when required, shall result in the loss of use of the Premises so as to materially interfere with Tenant's conduct of business on the Premises, and Tenant is unable reasonably to conduct normal business operations from the Premises for more than one and one-half (1½) consecutive business days, then Tenant's Rent shall be abated from the end of such one and one-half (1½) day period until Tenant is able to conduct normal business operations from the Premises. The amount of such abatement shall be agreed upon by Landlord and Tenant, according to the extent to which such Tenant's normal business operations are curtailed.

(c) Landlord shall make no changes to the Project or the Building which affect the usability or functional utilization of the Premises, or Tenant's ability to conduct normal business operations therefrom, other than temporary changes required in order for Landlord to comply with its repair and maintenance obligations under this Lease, nor shall Landlord make any changes to the Building's equipment or systems which will materially diminish the quality or quantity of services provided to the Premises.

9. SERVICES AND UTILITIES.

9.1 Landlord's Obligations. Landlord shall provide climate control to the Premises from 8:00 a.m. to 6:00 p.m., Monday through Friday, and 9:00 a.m. to 1:00 p.m. on Saturday (nationally recognized holidays excluded) in accordance with industry standards for Class A Buildings in the Ontario area, for Tenant's comfortable use and occupation of the Premises. If Tenant requires climate control at any other time, Landlord shall use reasonable efforts to furnish such service upon reasonable notice from Tenant, and Tenant shall pay Landlord a charge of $25.00 per hour for such use, upon demand. This amount shall be increased by Landlord on each anniversary of the Lease term by an amount reasonably determined by Landlord. Use of the Premises or any part thereof in a manner disproportionately exceeding the heating, ventilating or air-conditioning design conditions (including occupancy and connected electrical load) for the Premises, including rearrangement or partitioning which interferes with normal operation of the heating, ventilation or air-conditioning in the

Premises, or the use of computer or data processing machines or other machines or equipment, all as disclosed in writing by Landlord to Tenant prior to the date hereof, may require changes in the heating, ventilation, air-conditioning or plumbing systems or controls servicing the Premises or portions thereof, in order to provide comfortable occupancy. Except as contemplated in Section 11.1, any such required changes shall be made by Landlord at Tenants expense as alterations in accordance with the provisions of Section 12, but only to the extent permitted and upon the conditions set forth in that Section.

9.2 Elevator Service. Landlord shall furnish elevator service during normal business hours to be used by Tenant in common with others. At least one (1) elevator shall remain in service during all other hours. Landlord may designate a specific elevator for use as a service elevator.

9.3 Janitorial Service. Landlord shall make janitorial and cleaning services (including exterior building window washing) available to the Premises consistent with first class office Buildings in the Ontario area. Tenant shall pay to Landlord on demand the costs incurred by Landlord for (a) extra cleaning in the Premises required because of (i) misuse or neglect on the part of Tenant or Tenant's representatives, (ii) the use of portions of the Premises for special purposes requiring greater or more difficult cleaning work than office areas, (iii) interior glass partitions or unusual quantities of interior glass surfaces, and (iv) non-building standard materials or finishes installed by Tenant or at its request; and (b) removal from the Premises of any refuse and rubbish of Tenant in excess that ordinarily accumulated in general office occupancy or at times other than Landlords' standard cleaning times.

9.4 Water. Landlord shall make available domestic hot and cold running water in reasonable quantities to the Common Areas, and for lavatories, drinking fountains, staff rooms, kitchens and other domestic needs of Tenant if specified in Tenant's Plans and Specifications for the Premises, as described in Exhibit "D."

9.5 Electricity. Landlord shall provide the capacity for separate metering for the use of electricity service to the Premises. Landlord shall contract directly with the applicable supplier of such electricity, and pay such supplier directly for all electricity consumed at the Premises, subject to any limitations contained in Sections 2.4 or 5.2.4. Landlord shall not be liable under any circumstances for a loss of or injury to the Property or Premises or business of Tenant, however occurring, through, in connection with, or the failure of any such electricity.

9.6 No Warranty. Landlord does not warrant that any of the services referred to above, or any other services which Landlord may supply, will be free from interruption, and Tenant acknowledges that any one or more of such services may be suspended by reason of accident, repairs, inspections, alterations, or improvements necessary to be made, or by strikes or lockouts, or by reason of operation of law, or causes beyond the reasonable control of Landlord. Except as otherwise provided herein, any interruption or discontinuance of service shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, or any part thereof, nor render Landlord liable to Tenant for damages by abatement of the Rent or otherwise, or relieve Tenant from performance of Tenant's obligations under this Lease. Landlord shall, however, exercise reasonable diligence to restore any service so interrupted. Notwithstanding the foregoing, the Rent shall be equitably abated in the event Landlord, for whatever reason, is unable to supply any of the Building's sanitary, electrical, heating, air conditioning, water or other systems serving the Premises for a period of one and one half (1½) consecutive business days, and, as a result, Tenant is unable to conduct normal business operations from the Premises, unless the damage or defective condition relating to such systems is caused by Tenant, its employees, licensees or invitees. The amount of such abatement shall be agreed upon by Landlord and Tenant, according to the extent to which such unavailability interferes with Tenant's normal business operations on the Premises. If Landlord's failure to furnish any such services or utilities to the Premises or to supply any of the Building's sanitary, electrical, heating, air conditioning, water or other systems serving the Premises for any period of time is caused by any negligence or willful act of Landlord or Landlord's agents or contractors, and, as a result, Tenant is unable to conduct normal business operations from the Premises, there shall be an immediate abatement of Rent for the period of such failure of lack of supply. In the event of any stoppage or interruption of services, Landlord shall use its best efforts to restore said services as soon as possible; Tenant, however, shall have the right, at its option, to terminate this Lease if any such stoppage or interruption of said services continues for any reason (other than damage or destruction, as provided in Section 18 of this Lease) for more than thirty (30) consecutive days, and Tenant is unable reasonably to conduct normal business operations from the Premises during such entire period.

10. CONDITION OF THE PREMISES.

Tenant's taking possession of the Premises shall be deemed conclusive evidence that, as of the date of taking possession, the Premises are in good order and satisfactory condition, except for such matters as to which Tenant gave Landlord notice on or before the Commencement Date and latent defects that cannot ordinarily be observed in a walk-through inspection. No promise of Landlord to alter, remodel, repair or improve the Premises, Building or Project, and no representation, express or implied, respecting any of the Premises, Building or Project) have been made to Tenant by Landlord, or Landlord's agents, other than as may be contained herein or in a separate exhibit or addendum attached hereto and signed by Landlord and Tenant.

11. CONSTRUCTION, REPAIRS AND MAINTENANCE.

11.1 Landlord's Construction Obligations. Landlord shall construct certain tenant improvements (the "Tenant Improvements") on the Premises pursuant to the provisions of Exhibit "D." Landlord's cost for such improvements shall not exceed $27.00 per square foot of Usable Area, or $634,203.00 based on 23,489 square feet of Usable Area. Tenant shall reimburse Landlord for any excess costs, pursuant to the provisions of Exhibit "D." Tenant may elect to allocate up to $5.00 per square foot of this allowance toward the purchase of movable wall partitions (and attached working stations) the selection of which shall be made by Tenant. To the extent of amounts so allocated, at Landlord's option, upon written notice which must be given prior to installation, such fixtures and personal property shall be the property of Landlord; provided, however, that Tenant shall have the right to use such fixtures and personal property at all times prior to the termination of this Lease without any interference by Landlord. If Tenant pays any sums, other than from such allowance, for the purchase of such items, Landlord and Tenant shall promptly agree, upon or prior to the installation date, upon the ownership of each such item and shall mark such items appropriately to indicate ownership.

11.2 Landlord's Maintenance and Repair Obligations. Except as provided in Section 11.3.2, Landlord shall maintain, in good condition and repair, in a manner consistent with other comparable buildings in the vicinity: (a) the structural parts of the Building which structural parts include only the foundations, bearing and exterior walls (including glass and doors), subflooring, and roof; (b) the Common Areas; (c) the unexposed electrical, plumbing and sewage systems, including, without limitation, those portions of the systems lying outside the Premises; (d) window frames, gutters and downspouts on the Building; and (e) the Building heating, ventilation and air-conditioning systems servicing the Premises.

11.3 Tenant's Obligations.

11.3.1 Maintenance. Tenant, at Tenant's sole expense, shall, except for services furnished by Landlord pursuant to Article 9, maintain the Premises in good order, condition and repair, including the interior surfaces of the ceilings, walls and floors, all doors, all interior windows, all exposed plumbing, pipes and fixtures, switches and fixtures, building standard furnishings and special items and equipment installed by or at the expense of Tenant.

11.3.2 Repairs Caused by Tenant. Tenant shall be responsible for all repairs and alterations in and to the Premises, Building and Project and the facilities and systems thereof, the need for which arises out of (a) Tenant's use or occupancy of the Premises; (b) the installation, removal, use or operation of Tenant's Property (as defined in Section 13.2) in the Premises; (c) the moving of Tenant's Property into or out of the Building, unless undertaken by Landlord; or (d) the act, omission, misuse or negligence of Tenant, its agents, contractors, employees or invitees.

11.3.3 Landlord's Cure. If Tenant fails to maintain the Premises in good order, condition and repair, Landlord shall give Tenant notice to do such acts as are reasonably required to so maintain the Premises. If Tenant fails to commence such work within ten (10) business days after written notice thereof, and diligently prosecute it to completion, then Landlord shall have the right to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expended by Landlord shall be paid by Tenant promptly after demand with interest at the prime commercial rate then being charged by Bank of America, NT & SA, plus two (2) percentage points from the date of such work, but not to exceed the maximum rate then allowed by law. Landlord shall have no liability to Tenant for any damage, inconvenience or interference with the use of the Premises by Tenant as a result of performing any such work.

11.4 Compliance With Law. Landlord and Tenant shall each do all acts required to comply with all applicable laws, ordinances and rules or any public authority relating to their respective maintenance obligations as set forth herein.

11.5 Waiver by Tenant. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to terminate the Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

11.6 Load and Equipment Limits. Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry, as determined by Landlord or Landlord's structural engineer. The cost of any such determination made by Landlord's structural engineer shall be paid for by Tenant upon demand, if Tenant's load exceeds such designated load. Tenant shall not install business machines or mechanical equipment which cause noise or vibration to such a degree as to be objectionable to Landlord or other Building tenants.

11.7 Damages Arising From Repairs. Except as otherwise expressly provided in this Lease, Landlord shall have no liability to Tenant, nor shall Tenant's obligations under this Lease be reduced or abated in any manner whatsoever, by reason of any reasonable inconvenience, annoyance, interruption or injury to business arising from Landlord's making any repairs or changes which Landlord is required or permitted by this Lease or by any other tenant's lease or required by law to make in or to any portion of the Project, Building or Premises. Landlord shall, nevertheless, use reasonable efforts to minimize any interference with Tenant's business in the Premises. Notwithstanding the foregoing, the Rent shall be equitably abated, if, as a result of making such repairs, Tenant is unable reasonably to conduct normal business operations from the Premises for more than one and one-half (1½) consecutive days. The amount of such abatement shall be agreed upon by Landlord and Tenant, according to the extent to which Tenant's normal business operations on the Premises are curtailed.

11.8 Notice of Damage. Tenant shall give Landlord prompt notice of any damage to or defective condition in any part or appurtenance of the Building's mechanical, electrical, plumbing, HVAC or other systems serving, located in or passing through the Premises.

11.9 Condition of Premises Upon Termination of Lease. Upon the expiration or earlier termination of this Lease, Tenant shall return the Premises to Landlord clean and in the same condition as on the date Tenant took possession, except for normal wear and tear. Any damage to the Premises, including any structural damage, resulting from Tenant's use or from Tenant's removal of Tenant's fixtures, furnishings and equipment shall be repaired by Tenant at Tenant's expense.

12. ALTERATIONS AND ADDITIONS.

12.1 Landlord's Consent. Tenant shall not make any additions, alterations or improvements to the Premises without obtaining the prior written consent of Landlord. Landlord's consent may be conditioned on (a) Landlord's approval of relevant construction drawings and plans; and/or (b) Tenant's removing any such additions, alterations or improvements upon the expiration of the Term and restoring the Premises to the same condition as on the date Tenant took possession. All work with respect to any addition, alteration or improvement shall be done in good and workmanlike manner by properly qualified and licensed personnel approved by Landlord, in its reasonable judgment, and such work shall be diligently prosecuted to completion. Landlord may, at Landlord's option, require that any such work be performed by Landlord's contractor, in which case the cost of such work shall be paid for before commencement of the work. Tenant shall pay to Landlord upon completion of any such work by Landlord's contractor an administrative fee of eight percent (8%) of the cost of the work.

12.2 Payment of Construction Costs. Tenant shall pay the costs of any work done on the Premises pursuant to Section 12.1. Tenant shall keep the Premises, Building, Project, Tenant's leasehold interest and any additions or improvements which are or become the property of Landlord under this Lease, free and clear of all attachments, judgments and liens of any kind. Tenant shall indemnify, defend against and keep Landlord free and harmless from all liability, loss, damage, costs, attorney's fees, and any other expense incurred on account of claims by any person performing work or furnishing materials or supplies for Tenant or any person claiming under Tenant.

12.3 Notice of Construction. Before the actual commencement of any work for which a claim or lien may be filed, Tenant shall give Landlord notice of the intended commencement date a sufficient time before that date to enable Landlord to post notices of nonresponsibility or any other notices which Landlord deems necessary for the proper protection of Landlord's interest in the Premises, Building or Project; and Landlord shall have the right to enter the Premises and post such notices at any reasonable time.

12.4 Bonds. Landlord may require, at Landlord's sole option, that Tenant provide to Landlord, at Tenant's expense, a lien and completion bond in an amount equal to at least one and one-half (1 1/2) times the total estimated cost of any additions, alterations or improvements to be made in or to the Premises to protect Landlord against any liability for mechanics' and materialmen's liens and to insure timely completion of the work. Nothing contained in this Section 12.4 shall relieve Tenant of its obligation under Section 12.2 to keep the Premises, Building and Project free of all liens.

12.5 Ownership of Additions. Unless their removal is required by Landlord, all additions, alterations and improvements made to the Premises shall become the property of Landlord and be surrendered with the Premises upon the expiration of the Term; provided, however, that Tenant's equipment, machinery and trade fixtures which can be removed without damage to the Premises shall remain the property of Tenant and may be removed subject to the provisions of Section 13.2.

13. LEASEHOLD IMPROVEMENTS; TENANT'S PROPERTY.

13.1 Landlord's Property. All fixtures, equipment, improvements and appurtenances attached to or built into the Premises at the commencement of or during the Term, whether or not by or at the expense of Tenant ("Leasehold Improvements"), shall be and remain a part of the Premises, shall be the property of the Landlord and shall not be removed by Tenant, except as expressly provided in Section 13.2

13.2 Tenant's Property. All moveable partitions, business and trade fixtures, machinery and equipment, communications equipment and office equipment located in the Premises and acquired by or for the account of Tenant, without expense to Landlord, which can be removed without structural damage to the Building, and all furniture, furnishings and other articles of moveable personal property owned by Tenant and located in the Premises (collectively, "Tenant's Property") shall be and shall remain the property of Tenant and may be removed by Tenant at any time during the Term; provided that if any of Tenant's Property is removed, Tenant shall promptly repair any damage to the Premises or Building resulting from such removal.

14. CERTAIN RIGHTS RESERVED BY LANDLORD.

Landlord reserves the following rights, exercisable without liability of any kind to Tenant for (a) damage or injury to property, person or business; (b) causing an actual or constructive eviction from the Premises; or (c) disturbing Tenant's use or possession of the Premises:

14.1 Name. To name the Building and Project and to change the name or street address of the Building or Project.

14.2 Signs. To install and maintain all signs on the exterior of the Building or Project.

14.3 Keys. To have passkeys to all doors within the Premises, excluding Tenant's vaults and safes.

14.4 Inspect and Show Premises. At any time during the Term, and on reasonable prior notice to Tenant, to inspect the Premises and to show the Premises to any prospective purchaser or mortgagee on the Project or to others having an interest in the Project or Landlord; and during the last six months of the Term, to show the Premises to prospective tenants thereof. Landlord shall not interfere with Tenant's business on the Premises in the course of any such inspection and showing.

14.5 Enter Premises. To enter the Premises, upon reasonable prior notice, except in the case of an emergency, for the purpose of making inspections, repairs, alterations, additions or improvements to the Premises or the Building (including, without limitation, checking, calibrating, adjusting or balancing controls and other parts of the HVAC system) and to take all steps as may be necessary or desirable for the safety, protection, maintenance, or preservation of the Premises or the Building or Landlord's interest therein or as may be necessary or desirable for the operation or improvement of the Building or in order to comply with laws, orders or requirements or governmental or other authority. Landlord agrees to use its best efforts to minimize interference with Tenant's business on the Premises in the course of any such entry.

15. ASSIGNMENT, SUBLETTING AND HYPOTHECATION.

No assignment of this Lease or sublease of all or any part of the Premises shall be permitted except as provided in this Article 15.

15.1 Restrictions/Recapture/Termination Option. Tenant shall not, without the prior written consent of Landlord, assign or hypothecate this Lease or any interest herein, sublet the Premises or any part thereof or permit the use of the Premises by any party other than Tenant. Landlord's consent may be conditioned on Landlord's approval of the experience, competence, reputation and/or financial condition of the proposed subtenant or assignee. Any of the foregoing acts without such consent shall be void and shall, at the option of Landlord, terminate this Lease. This Lease shall not, nor shall any interest of Tenant herein, be assignable by operation of law without the written consent of the Landlord.

15.2 Conditions of Assignment. If, at any time or from time to time during the Term, Tenant desires to assign this Lease or sublet all or any part of the Premises, Tenant shall give notice to Landlord setting forth the terms and provisions of the proposed assignment or sublease and the identity of the proposed assignee or subtenant. Tenant shall promptly supply Landlord with such information concerning the business background and financial condition of such proposed assignee or subtenant as Landlord may reasonably request. If Landlord approves of such sublease by assignee, Tenant may assign or hypothecate the Lease or sublet such space to such proposed assignee, secured party or subtenant on the following further conditions:

15.2.1 Approval. Landlord shall have the right to approve such proposed assignee, subtenant or secured party, which approval shall not be unreasonably withheld;

15.2.2 Same Terms. The assignment, sublease, or security agreement shall be on the same terms set forth in the notice given to Landlord;

15.2.3 Documents Delivered. No assignment, sublease, or security agreement shall be valid, and no assignee, sublessee or secured party shall have rights to take possession of the Premises, until an executed counterpart of such assignment, sublease or security agreement had been delivered to Landlord;

15.2.4 Further Assignment. No assignee, sublessee or secured party shall have a further right to assign or sublet except on the terms herein contained; and

15.2.5 Additional Rent. Any sums or other economic consideration received by Tenant as a result of such assignment, subletting or hypothecation, however denominated under the assignment, sublease or security agreement, which exceed, in the aggregate, (a) the total sums which Tenant is obligated to pay Landlord under this Lease (prorated to reflect obligations allocable to any portion of the Premises subleased); plus (b) any reasonable real estate brokerage commissions or fees payable in connection with such assignment or subletting, shall be payable to Landlord as additional rent under this Lease without affecting or reducing any other obligations of Tenant hereunder.

15.3 Tenant's Liability. Each permitted assignee, sublessee or transferee, other than Landlord, shall assume and be deemed to have assumed this Lease and shall be and remain liable jointly and severally liable with Tenant for the payment of the Rent and for the due performance or satisfaction of all of the provisions, covenants, conditions and agreements herein contained on Tenant's part to be performed or satisfied. No assignment or transfer of this Lease shall alter the primary liability of Tenant to pay the Rent and to perform all other obligations to be performed by Tenant hereunder. The acceptance of Rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision hereof. Consent to one assignment, subletting or hypothecation shall not be deemed consent to any subsequent assignment, subletting or hypothecation. In the event of default by an assignee or subtenant of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such assignee, subtenant or successor. Landlord may consent to subsequent assignments, sublettings, hypothecations and amendments or modifications of the Lease with assignees, sublessors or creditors of Tenant, without notifying Tenant or any successor of Tenant, and without obtaining its or their consent thereto; and any such actions shall not relieve Tenant of liability under this Lease.

15.4 Corporate Stock Transactions. Except as set forth below, Tenant's sale or transfer of all or substantially all of the assets or stock of Tenant shall constitute an assignment hereunder, but shall not require Landlord's consent, provided that written notice of such sale or transfer is given to Landlord and the net worth of the purchaser or transferee is equal to or greater than Tenant's as of the date of the transfer or sale. Notwithstanding the foregoing, a transfer of less than fifty-one percent (51%) of the ownership of Tenant's stock, a transfer of stock pursuant to a public offering or, if the stock of Tenant is publicly traded, any transfer of stock in Tenant shall not be considered an assignment within the meaning of this Article 15.

15.5 Landlord's Costs. Any notice by Tenant to Landlord of a proposed assignment, subletting or hypothecation shall be accompanied by a payment of $250 as a nonrefundable fee for Landlord's time and the processing of Tenant's request for Landlord's consent. In addition to said fee, Tenant shall reimburse Landlord for reasonable attorney's fees incurred by Landlord in connection with such review and the preparation of documents in connection therewith.

16. HOLDING OVER.

If, after expiration of the Term, Tenant remains in possession of the Premises with Landlord's permission (express or implied), Tenant shall become a tenant from month to month only, upon all the provisions of this Lease (except as to Term and Base Rent), but the Monthly Installments of Base Rent payable by Tenant shall be increased to one hundred twenty-five percent (125%) of the Monthly Installments of Base Rent payable by Tenant at the expiration of the Term. Such monthly rent shall be payable in advance on or before the first day of each month. If either party desires to terminate such month-to-month tenancy, it shall give the other party not less than thirty (30) days advance written notice of the date of termination.

17. SURRENDER OF PREMISES.

17.1 Condition of Premises. Tenant shall peaceably surrender the Premises to Landlord on the Expiration Date, in broom-clean condition and in as good condition as when Tenant took possession, except for (a) reasonable wear and tear; (b) loss by fire or other casualty; and (c) loss by condemnation. Tenant shall, on Landlord's request, remove Tenant's Property on or before the Expiration Date and promptly repair all damage to the Premises or Building caused by such removal.

17.2 Remaining Property. If Tenant abandons or surrenders the Premises or is dispossessed by process of law or otherwise, any of Tenant's Property left on the Premises shall be deemed to be abandoned; and, at Landlord's option, title shall pass to Landlord under this Lease as by a bill of sale. If Landlord elects to remove all or any part of such Tenant's Property, the cost of removal, including repairing any damage to the Premises or Building caused by such removal, shall be paid by Tenant. On the Expiration Date, Tenant shall surrender all keys to the Premises.

18. DESTRUCTION OR DAMAGE.

18.1 90-Day Insured Repairs. If the Premises or the portion of the Building necessary for Tenant's use and occupancy is damaged by fire, earthquake, act of God, the elements or other casualty, Landlord shall, subject to the provisions of this Article, promptly repair the damage if such repairs can, in the opinion of Landlord's hazard insurer, which opinion shall be rendered to Landlord and Tenant within fourteen (14) days of the date of destruction, be completed within ninety (90) days and the damage is covered by Landlord's extended coverage insurance. If Landlord's hazard insurer fails to render such opinion within such fourteen (14) day period, Landlord shall promptly appoint a contractor satisfactory to Tenant to render such opinion and shall cause such opinion to be rendered within thirty (30) days after the casualty. If it is determined that repairs can be completed within ninety (90) days, Landlord shall commence such repairs within thirty (30) days of the occurrence of the damage or casualty, and this Lease shall remain in full force and effect (without limitation of any other rights and remedies of the parties), except that if such damage is not the result of the negligence or willful misconduct of Tenant or Tenant's agents, employees, contractors, licensees or invitees, the Rent shall be abated to the extent Tenant's use of the Premises is impaired, commencing with the date of damage and continuing until completion of the repairs required of Landlord under Section 18.1.

18.2 Long-Term/Uninsured Repairs to Premises. If it is determined, as provided in Section 18.1, that such repairs to the Premises or portion of the Building necessary for Tenant's use and occupancy cannot be completed in ninety (90) days, or if such casualty or damage is not covered by Landlord's extended coverage insurance, Landlord or Tenant may elect, upon notice to the other given within thirty (30) days after the date of such fire or other casualty, to repair such damage, in which event this Lease shall continue in full force and effect, but the Rent shall be abated as provided in Section 18.1. If neither Landlord nor Tenant so elects to make such repairs, this Lease shall terminate as of the date of such fire or other casualty. Any repairs made pursuant to this Section 18.2 shall be made at the expense of the party electing to make such repairs to the extent insurance proceeds are not available or are insufficient to cover the cost of such repairs.

18.3 Long-Term/Uninsured Repairs to Building or Project. If any other portion of the Building or Project is totally destroyed or damaged to the extent that repair thereof cannot be completed within ninety (90) days, as determined pursuant to Section 18.1, or if such casualty or damage is not covered by Landlord's extended coverage insurance, Landlord may elect, upon notice to Tenant given within thirty (30) days after the date of such fire or other casualty, to repair such damage, in which event this Lease shall continue in full force and effect, but the Rent shall be abated as provided in Section 18.1. If Landlord does not elect to make such repairs, this Lease shall terminate as of the date of such fire or other casualty. Tenant shall pay Tenant's Proportionate Share of any repairs made pursuant to this Section 18.3 to the extent insurance proceeds are not available or are insufficient to cover the cost of such repairs. Tenant shall be responsible, at its sole cost and expense, for the repair, restoration and replacement of any other leasehold improvements and tenant's property.

18.4 Tenant's Right to Terminate. Notwithstanding anything contained in this Section 18, if, during the Term the Premises, Building or any portion thereof receives damage, as a result of any reason other than Tenant's gross negligence or willful misconduct, the effect of which is to render the Premises untenantable, in Tenant's reasonable opinion, for the normal operations of Tenant's business for a period or one hundred eighty (180) days or more or if repair and reconstruction is not timely commenced or completed within the time required therefor, then Tenant shall have the option to terminate this Lease upon thirty (30) days' notice to Landlord.

18.5 Limitation on Landlord's Right to Terminate. Notwithstanding anything contained in this Section 18, Landlord may not terminate this Lease if Landlord does not also terminate the lease of each tenant with similar damage to such tenant's premises resulting from the casualty leading to such termination.

18.6 Consequential Damage. Landlord shall not be liable for any loss of business, inconvenience or annoyance arising from any repair or restoration of any portion of the Premises, Building or Project as a result of any damage from fire or other casualty.

18.7 Waiver. This Lease shall be considered an express agreement governing any case of damage to or destruction of Premises, Building or Project by fire or other casualty, and any present or future law which purports to govern the rights of Landlord and Tenant in such circumstances in the absence of express agreement shall have no application.

18.8 Obligation to Repair. Subject to the options to terminate provided in this Article 18, if during the Term, the Building or the Premises, or any portion thereof, is damaged by fire, earthquake or other casualty or peril, Landlord shall with all due diligence (upon receipt of insurance proceeds, if applicable) repair or rebuild the Building and the Premises to the condition at least equal to that existing immediately prior to said damage. In connection therewith, Landlord shall use any such insurance proceeds for such purpose, together with any insurance proceeds received by Tenant by reason of insurance on improvements made by it in excess of the actual amount needed to replace or restore Tenant's improvements, fixtures and equipment, provided that any such proceeds received by Tenant shall only be used for the replacements or restoration of Tenant's improvements, fixtures and equipment. If, by reason of the provisions of any mortgage or deed of trust executed by Landlord encumbering the Building, insurance proceeds are required to be made payable to the lien holder and/or the policies of insurance placed in its custody, Tenant hereby consents thereto, provided that the lien holder in question shall first agree in writing with Landlord to make the proceeds of said insurance available for the repair and restoration of the Building.

19. EMINENT DOMAIN.

19.1 Termination Rights. If the whole of the Building or Premises is lawfully taken by condemnation or in any other manner for any public or quasi-public purpose, this Lease shall terminate as of the date of such taking, and Rent shall be prorated to such date. If less than the whole of the Building or Premises is so taken, this Lease shall be unaffected by such taking, provided that (a) Tenant shall have the right to terminate this Lease by notice to Landlord given within ninety (90) days after the date of such taking if twenty percent (20%) or more of the Premises is taken and the remaining area of the Premises is not reasonably sufficient for Tenant to continue operation of its business; and (b) Landlord shall have the right to terminate this Lease by notice to Tenant given within ninety (90) days after the date of such taking. If either Landlord or Tenant so elects to terminate this Lease, the Lease shall terminate on the thirtieth (30th) day after either such notice. The Rent shall be prorated to the date of termination. If this Lease continues in force upon such partial taking, the Rent shall be equitably adjusted according to the remaining Rentable Area of the Premises and Project.

19.2 Proceeds. In the event of any taking, partial or whole, all of the proceeds of any award, judgment or settlement payable by the condemning authority shall be the exclusive property of Landlord; and Tenant hereby assigns to Landlord all of its right, title and interest in any award, judgment or settlement from the condemning authority. Tenant, however, shall have the right to claim from the condemning authority (but not from Landlord) such compensation as may be recoverable by Tenant in its own right for relocation expenses, damage to Tenant's personal property, and the value of Tenant's leasehold estate.

19.3 Restoration of Remaining Premises. In the event of a partial taking of the Premises which does not result in a termination of this Lease, Landlord shall restore the remaining portion of the Premises as nearly as practicable to its condition prior to the condemnation or taking, but only to the extent of building standard work. Tenant shall be responsible, at its sole cost and expense, for the repair, restoration and replacement of any other Leasehold Improvements and Tenant's Property.

20. INDEMNIFICATION.

20.1 Tenant's Indemnification. Except to the extent caused by the negligence or willful misconduct of Landlord or its Related Parties (as defined below) Tenant shall indemnify and hold Landlord and its Related Parties harmless against and from liability and claims of any kind for loss or damage to property of Tenant and/or its Related Parties, or for any injury to or death of any person, arising out of (a) Tenant's or its Related Parties' use and occupancy of the Premises or any work, activity or other things conducted by Tenant and/or its Related Parties in, on or about the Project; (b) any breach or default by Tenant and/or its Related Parties of any of Tenant's obligations under this Lease; or (c) any negligent or otherwise tortious act or omission of Tenant and/or its Related Parties in, on about or affecting the Premises, the against all costs, attorneys' fees, expert-witness fees and any other expenses incurred in such action or proceeding. Except as provided in Section 20.2, or as otherwise provided in this Lease, as a material part of the consideration for Landlord's execution of this Lease, Tenant hereby assumes all risk of damage or injury to any person or property in, or about the Premises from any cause. Tenant's obligations under this Section 20.1 shall survive the termination of the Lease.

20.2 Landlord's Indemnification. Except to the extent caused by the negligence or willful misconduct of Tenant or its Related Parties, the Landlord shall indemnify and hold Tenant and its Related Parties harmless against and from liability and claims of any kind for loss or damage to property of Landlord and/or its Related Parties, or for any injury to or death of any person, arising out of (a) use and occupancy of the Project or any work, activity or other things conducted by Landlord and/or its Related Parties in, on or about the Project; (b) any breach or default by Landlord and/or its Related Parties of any of Landlord's obligations under this Lease; or (c) any negligent or otherwise tortious act or omission of Landlord and/or its Related Parties relating to the Premises, Project or this Lease. Landlord shall, at Landlord's expense and by counsel satisfactory to Tenant defend Tenant in any action or proceeding arising from any such claim and shall indemnify Tenant against all costs, attorneys' fees, expert-witness fees and any other expenses incurred in such action or proceeding. Landlord's obligations under this Section 20.2 shall survive the termination of the Lease.

20.3 Landlord's Liability Limitations. Except as provided in Section 20.2, Landlord shall not be liable for injury or damage which may be sustained by the person or property of Tenant, its Related Parties or any other person in or about the Premises caused by or resulting from fire, steam, electricity, gas, water or rain which may leak or flow from or into any part of the Premises or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, whether such damage or injury results from conditions arising upon the Premises or upon other portions of the Building or Project or from other sources. Except as provided in Section 20.2, Landlord shall not be liable for any damages arising from any act or omission of any other tenant of the Building or Project, except to the extent Landlord permitted such act or omission.

20.4 Related Parties. The "Related Parties" of an entity or individual (where appropriate) include, but are not limited to, all past, present and future employees, officers, directors, shareholders, contractors, subcontractors, invitees, customers, partners, joint venturers, agents, successors, assigns, heirs, personal representatives, administrators, parent entities, subsidiaries and affiliates of that entity or individual (where appropriate).

21. INSURANCE.

21.1 Tenant's Policy Requirements. All insurance required to be carried by Tenant hereunder shall be issued by responsible insurance companies acceptable to Landlord and Landlord's lender and qualified to do business in the State. Each policy shall name Landlord and, at Landlord's request, any mortgagee of Landlord as an additional insured, as their respective interests may appear. Each policy shall contain (a) a cross-liability endorsement; (b) a provision that such policy and the coverage evidenced thereby shall be primary and noncontributing with respect to any policies carried by Landlord and that any coverage carried by Landlord shall be excess insurance; and (c) a waiver by the insurer of any right of subrogation against Landlord, its agent, employees and representatives, which arises or might arise by reason of any payment under such policy or by reason of any act or omission by Landlord, its agents, employees or representatives. A copy of each paid-up policy (authenticated by the insurer) or certificate of the insurer evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord before the date Tenant is first given the right of possession of the Premises, and thereafter within thirty (30) days after any demand by Landlord therefor. Landlord may, at any time and from time to time, inspect and/or copy any insurance policies required to be maintained by Tenant hereunder. No such policy shall be cancellable except after twenty (20) days' written notice to Landlord and Landlord's lender. Tenant shall furnish Landlord with renewals or "binders" of any such policy at least ten (10) days prior to the expiration thereof. Tenant agrees that if Tenant does not take out and maintain such insurance, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge Tenant the premiums, payable upon demand. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by Tenant, provided such blanket policies expressly afford coverage to the Premises, Landlord, Landlord's mortgagee and Tenant as required by this Lease.

21.2 Tenant's Fire and Extended Coverage. Beginning on the date Tenant is given access to the Premises for any purpose and continuing until expiration of the Term, Tenant shall procure, pay for and maintain in effect policies of casualty insurance covering (a) all Leasehold Improvements, including any alterations, additions or improvements as may be made by Tenant pursuant to the provisions of Article 14, and (b) trade fixtures, merchandise and other personal property from time to time in or about the Premises, in an amount not less than one hundred percent (100%) of their actual replacement cost from time to time, providing protection against any peril included with the classification "Fire and Extended Coverage," together with insurance against sprinkler damage, vandalism and malicious mischief. The proceeds of such insurance shall be used for the repair or replacement of the property so insured. Upon termination of this Lease following a casualty as set forth herein, the proceeds under Section 21.2(a) shall be paid to Landlord, and the proceeds under Section 21.2(b) shall be paid to Tenant.

21.3 Tenant's Liability Insurance. Beginning on the date Tenant is given access to the Premises for any purpose and continuing until expiration of the Term, Tenant shall provide, pay for and maintain in effect workers' compensation insurance as required by law and comprehensive public liability and property damage insurance with respect to the construction of improvements on the Premises and the operations of Tenant in, on or about the Project, providing personal injury and broad form property damage coverage for not less than $2,000,000.00 combined single limit for bodily injury, death and property damage liability. Tenant shall also procure adequate insurance to cover all of Tenant's obligations under this Lease, including, but not limited to, Tenant's obligations to indemnify Landlord as set forth in Section 20.

21.4 Tenant's Insurance Requirement Adjustments. Not less than every three (3) years during the Term, Landlord and Tenant shall mutually agree to reasonable and appropriate increases in all of Tenant's insurance policy limits for all insurance to be carried by Tenant as set forth in this Article 21. In the event Landlord and Tenant cannot mutually agree upon the amount of said increases, then Tenant agrees that all insurance policy limits as set forth in this Article 21 shall be adjusted by a minimum of five percent (5%) per annum cumulatively throughout the Term.

21.5 Landlord's Hazard Insurance. At all times during the Term, Landlord shall keep the Project (excluding the land) and the Premises hereof (including the Tenant Improvements) insured against damage and destruction by fire, vandalism and other perils included within the classification "Fire and Extended Coverage," by a responsible insurance company authorized to do business in the State, with a rating of not less than A:VII in the most currently available Best's Insurance Reports, in the amount of the full replacement value of the Project, the Building and tenant improvements in the Premises, in their entirety. The insurance policies shall include an endorsement entitled "Agreed Amount Endorsement and Replacement Cost Coverage."

21.6 Landlord's Liability Insurance. Landlord shall procure and keep in effect during the Term a policy or policies of comprehensive liability insurance, including public liability and property damage, with a minimum combined single limit of liability of $2,000,000.00 for personal injuries or deaths of persons occurring in or about the Project and the Building. Said policy or policies shall be issued by an insurance company authorized to do business in the State, with a rating of not less than A:VII in the most currently available Best's Insurance Reports.

22. WAIVER OF SUBROGATION.

Landlord and Tenant each hereby waive all rights of recovery against the other and against the officers, employees, agents and representatives of the other, on account of loss by or damage to the waiving party of its property or the property of others under its control, to the extent that such loss or damage is insured against under any fire and extended coverage insurance policy which either may have in force at the time of the loss or damage. Tenant shall, upon obtaining the policies of insurance required under this Lease, give notice to its insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

23. SUBORDINATION AND ATTORNMENT.

23.1 Subordination. Upon written request of Landlord, any future first mortgagee or first deed of trust beneficiary of Landlord or future ground lessor of Landlord, Tenant shall, in writing subordinate its rights under this Lease to the lien of any future first mortgage or first deed of trust, or to the interest of any lease in which Landlord is lessee, and to all advances made or hereafter to be made thereunder; provided that such subordination shall not be effective unless a separate written agreement is entered into between Tenant and such lessor under such ground or underlying lease, or by the mortgagee named in any such mortgage, or by the trustee and the beneficiary named in any such deed of trust, providing that notwithstanding any default in the mortgage or deed of trust and any termination or foreclosure thereof, or the enforcement by the holder of the mortgage or deed of trust of any rights or remedies, including any foreclosure sale, or otherwise, this Lease shall be recognized, remain in full force and effect, and the Tenant shall be permitted to remain in quiet and peaceful possession of the Premises throughout the full Lease Term and to receive and enjoy the full benefits and rights provided to Tenant hereunder, as long as Tenant shall not be in default under this Lease, or, if Tenant is in such default, as long as Tenant's time to cure such default shall not have expired (the "Non-Disturbance and Attornment Agreement"). Further, Landlord shall use its reasonable efforts to obtain such a Non-Disturbance and Attornment Agreement from any existing first mortgagee or first deed of trust beneficiary of Landlord as of the date of the execution of this Lease. The holder of any security interest may, upon written notice to Tenant, elect to have this Lease prior to its security interest regardless of the time of granting or recording of such security interest.

23.2 Attornment. In the event of any foreclosure sale, transfer in lieu of foreclosure or termination of the lease in which Landlord is lessee, Tenant shall attorn to the purchaser, transferee or lessor, as the case may be, and recognize that party as Landlord under this Lease, provided such party acquires and accepts the Premises subject to this Lease.

24. TENANT ESTOPPEL CERTIFICATE.

Within ten (10) days after written request from Landlord, Tenant shall execute and deliver to Landlord or Landlord's designee a written statement certifying (a) that this Lease is unmodified and in full force and effect, or is in full force and effect as modified and stating the modifications; (b) the amount of Base Rent and the date to which Base Rent and additional rent have been paid in advance; (c) the amount of any security deposited with Landlord; and (d) that Landlord is not in default hereunder or, if Landlord is claimed to be in default, stating the nature of any claimed default. Any such statement may be relied upon by a purchaser, assignee or lender. Tenant's failure to execute and deliver such statement within the time required shall be conclusive upon Tenant that (a) this Lease is in full force and effect and has not been modified except as represented by Landlord; (b) there are no uncured defaults in Landlord's performance and Tenant has no right of offset, counterclaim or deduction against Rent; and (c) not more than one month's Rent has been paid in advance, provided that the written request so specifies and states the date on or before which such statement must be delivered to Landlord in accordance herewith.

25. TRANSFER OF LANDLORD'S INTEREST.

In the event of any sale or transfer by Landlord of the Premises, Building or Project and assignment of this Lease by Landlord, Landlord shall be and is hereby entirely freed and relieved of any and all liability and obligations contained in or derived from this Lease arising out of any act, occurrence or omission relating to the Premises, Building, Project or Lease occurring after the consummation of such sale or transfer, providing the purchaser shall expressly assume all of the covenants and obligations of Landlord under this Lease. If any security deposit or prepaid Rent has been paid by Tenant, Landlord may transfer the security deposit or prepaid Rent to Landlord's successor; and upon such transfer, Landlord shall be relieved of any and all further liability with respect thereto, provided that Landlord shall have first given Tenant written notice thereof and Landlord's successor shall have confirmed to Tenant, in writing, such successor's assumption or liability.

26. DEFAULT.

26.1 Tenant's Default. The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant.

26.1.1 Abandonment. If Tenant abandons the Premises;

26.1.2 Nonpayment of Rent. If Tenant fails to pay any Rent or any other charges required to be paid by Tenant under this Lease within the time required therefor and such failure continues for five (5) days after written notice thereof from Landlord;

26.1.3 Nonperformance. If Tenant fails to promptly and fully perform any other covenant, condition or agreement contained in this Lease and such failure continues for thirty (30) days after the written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's failure is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently prosecute such cure to completion;

26.1.4 Attachment. If a writ of attachment or execution is levied on Tenant's leasehold interest under this Lease or on any of Tenant's Property, and is not satisfied or released within sixty (60) days thereafter;

26.1.5 Creditor Arrangement. If Tenant makes a general assignment for the benefit of creditors;

26.1.6 Insolvency. If Tenant files a voluntary petition for relief or if a petition against Tenant in a proceeding under the federal bankruptcy laws or other insolvency laws is filed and not withdrawn or dismissed within ninety (90) days thereafter, or if, under the provisions of any law providing for reorganization or winding up of corporations, any court of competent jurisdiction assumes jurisdiction, custody or control of Tenant or any substantial part of its property and such jurisdiction, custody or control remains in force unrelinquished, unstayed or unterminated for a period of ninety (90) days; or

26.1.7 Receivership. If, in any proceeding or action in which Tenant is a party, a trustee, receiver, agent or custodian is appointed to take charge of the Premises or Tenant's Property (or has the authority to do so) for the purpose of enforcing a lien against the Premises or Tenant's Property, and such receiver isn't removed within sixty (60) days.

26.2 Remedies.

26.2.1 Landlord's Options. In the event of Tenant's default hereunder, then, in addition to any other rights or remedies Landlord may have under any law, Landlord shall have the right, at Landlord's option, without further notice or demand of any kind, to do the following:

(a) Termination. Terminate this Lease and Tenant's right to possession of the Premises and reenter the Premises and take possession thereof, and Tenant shall have no further claim to the Premises under this Lease;

(b) Reentry Without Termination. Continue this Lease in effect, reenter and occupy the Premises for the account of Tenant and collect any unpaid Rent or other charges which have or therefore become due and payable; or

(c) Reentry and Termination. Reenter the Premises under the provisions of Section 26.2.1(b) above and thereafter elect to terminate this Lease and Tenant's right to possession of the Premises.

26.2.2 Rights Upon Reentry. If Landlord reenters the Premises under the provisions of Section 26.2.1, Landlord shall not be deemed to have terminated this Lease or the obligation of Tenant to pay any Rent or other charges thereafter accruing, unless Landlord notifies Tenant in writing of Landlord's election to terminate this Lease. In the event of any reentry or retaking of possession by Landlord, Landlord shall have the right, but not the obligation to remove all or any part of Tenant's Property in the Premises and to place such property in storage at a public warehouse at the expense and risk of Tenant. If Landlord elects to relet the Premises for the account of Tenant, the rent received by Landlord from such reletting shall, in the sole discretion of Landlord, be applied as follows: first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; second; to the payment of any costs of such reletting; third, to the payment of the cost of any alterations and repairs to the Premises; fourth, to the payment of Rent due and unpaid hereunder; and the balance, if any, shall be held by Landlord and applied in payment of future Rent as it becomes due. If that portion of Rent received from the reletting which is applied against the

Rent due hereunder is less than the amount of the Rent due, Tenant shall pay the deficiency to Landlord promptly upon demand by Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as determined, any costs and expenses incurred by Landlord in connection with such reletting or in making alterations and repairs to the Premises which are not covered by the rent received from the reletting. Tenant hereby waives all claims for damages that may be caused by Landlord's reentering and taking possession of the Premises or removing or storing Tenant's Property. No such reentry shall be considered to be a forcible entry.

26.2.3 Damages. Should Landlord elect to terminate this Lease under the provisions of Section 26.2.1, Landlord may recover as damages from Tenant the following:

(a) Past Rent. The worth at the time of the award of any unpaid Rent which has been earned at the time of termination; plus

(b) Rent Prior to Award. The worth at the time of the award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) Rent After Award. The worth at the time of the award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of rental loss that Tenant proves could be reasonably avoided; plus

(d) Pro-Rated Concessions. The cost of any unamortized rental concessions granted to Tenant as an inducement to enter into this Lease, including, but not limited to: (i) the difference between the fair market rental value of $1.90 per rentable foot of the Premises and the actual rent paid per Article 5 of this Lease; (ii) the cost of tenant improvements paid by Landlord; and (iii) brokerage commissions relating to the Lease paid by Landlord (For example, if the total value of the concessions granted by Landlord was $100,000.00, and Tenant defaults under this Lease after two (2) years of a five (5) year lease, Landlord could recover three-fifths (3/5), or sixty percent (60%), of the $100,000.00 in concessions, or $60,000.00 as part of Landlord's total damages.); plus

(e) Proximately-Caused Damages. Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom, including, but not limited to, any costs or expenses (including attorneys' fees) incurred by Landlord in (i) retaking possession of the Premises; (ii) maintaining the Premises after Tenant's default; (iii) preparing the Premises for reletting to a new tenant, including any repairs or alterations; and (iv) reletting the Premises, including broker's commissions.

"The worth at the time of the award" as used in Sections 26.2.3(a) and (b) is to be computed by allowing interest at the lesser of fifteen percent (15%) per annum or the maximum rate permitted by law at the time of the award. "The worth at the time of the award" as used in Section 26.2.3(c) is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award plus one percent (1%).

26.2.4 Waiver. The waiver by Landlord of any breach of any term, covenant or condition of this Lease shall not be deemed a waiver of such term, covenant or condition. Acceptance of Rent by Landlord subsequent to any breach hereof shall not be deemed a waiver of any preceding breach other than the failure to pay the particular Rent so accepted, regardless of Landlord's knowledge of any breach at the time of such acceptance of Rent. Landlord shall not be deemed to have waived any term, covenant or condition unless Landlord gives Tenant written notice of such waiver.

26.3 Landlord's Default. If Landlord fails to perform any covenant, condition or agreement contained in this Lease within thirty (30) days after receipt of written notice from Tenant specifying such default, or if such default cannot reasonably be cured within thirty (30) days, if Landlord fails to commence to cure within that thirty (30) day period, then Landlord shall be liable to Tenant for any damages sustained by Tenant as a result of Landlord's breach; provided, however, it is expressly understood and agreed that if Tenant obtains a money judgment against Landlord resulting from any default or other claim arising under this Lease, that judgment shall be satisfied only out of Landlord's right, title and interest in the Project, and the rents, issues, profits and other income actually received on account of Landlord's right, title and interest in the Premises, Building or Project, and no other real, personal or mixed property of Landlord (or of any of the partners which comprise Landlord, if any), wherever situated, shall be subject to levy to satisfy such judgment. If, after notice to Landlord of default, Landlord (or any first mortgagee or first deed of trust beneficiary of Landlord) fails to cure the default as provided herein, then Tenant shall have the right to cure that default at Landlord's expense and to offset any such reasonable costs incurred by Tenant against the next due Base Rent. Tenant shall not have the right to terminate this Lease or to withhold, reduce or offset any amount against any payments of Rent or any other charges due and payable under this Lease except as otherwise specifically provided herein.

26.4 No Merger. The termination of this Lease or the reentry of Landlord upon the Premises for any reason shall not work a merger of the leasehold into the fee estate.

27. RELOCATION OF PREMISES.

27.1 Substitute Premises. Landlord may, before or after the Commencement Date, elect by notice to Tenant to substitute for the Premises other office space in the Project (the "Substitute Premises") designated by Landlord, provided that the Substitute Premises shall be as commercially desirable as the Premises, shall contain at least the same Usable Area as the Premises and have a configuration substantially similar to the Premises. Landlord's notice shall be accompanied by a plan of the Substitute Premises, and such notice or plan shall set forth the Usable Area of the Substitute Premises. Tenant shall vacate and surrender the Premises and shall occupy the Substitute Premises promptly (and, in any event, not later than fifteen (15) days) after Landlord has Substantially Completed the work to be performed by Landlord in the Substitute Premises pursuant to Subsection 27.2 and performed its other obligations thereunder. Tenant shall pay the same Rent with respect to the Substitute Premises as was payable with respect to the Premises, without regard to the Usable Area of the Substitute Premises. This Lease shall remain in full force and effect, and the Substitute Premises shall thereafter be deemed to be the Premises; provided, however, that Tenant's Rent shall be abated to the extent Tenant's normal business operations are interrupted by such substitution.

27.2 Landlord's Obligations. Except as provided herein, Tenant shall not be entitled to any compensation for any inconvenience or interference with Tenant's business, nor to any abatement or reduction of the Rent, but Landlord shall, at Landlord's expense, do the following: (a) furnish and install in the Substitute Premises fixtures, equipment, improvements, appurtenances and Leasehold Improvements at least equal in kind and quality to those contained or to be contained in the Premises at the time such notice of substitution is given by Landlord; (b) provide personnel to perform under Tenant's direction the moving of Tenant's Property from the Premises to the Substitute Premises; (c) promptly reimburse Tenant for Tenant's actual and reasonable out-of-pocket costs incurred in connection with the relocation of any telephone or other communications equipment from the Premises to the Substitute Premises; and (d) promptly reimburse Tenant for any other actual and reasonable out-of-pocket costs incurred by Tenant in connection with Tenant's move from the Premises to the Substitute Premises provided such costs are approved by Landlord in advance, which approval shall not be unreasonably withheld. Tenant agrees to cooperate with Landlord so as to facilitate the prompt completion by Landlord of its obligations under this Section and the prompt surrender by Tenant of the Premises. Without limiting the generality of the preceding sentence, Tenant agrees (a) to provide to Landlord promptly any approvals or instructions and any plans and specifications or any other information reasonably requested by Landlord and (b) to perform promptly in the Substitute Premises any work to be performed herein by Tenant to prepare the same for Tenant's occupancy.

28. SECURITY DEPOSIT.

Tenant will deposit with Landlord upon the execution of this Lease the Security Deposit as security for the full and faithful performance of every provision of this Lease to be performed by Tenant. Upon the addition of the First Expansion Space and in the event Tenant exercises its option to add the Second Expansion Space (as both such capitalized terms are hereinafter defined) to the Premises, Tenant shall, on the commencement date for such additional space, increase the amount of the Security Deposit by depositing with Landlord an amount equal to the first month's Base Rent for the First Expansion Space or the Second Expansion Space, as the case may be. If Tenant defaults with respect to any provision of this Lease, including payment of the Rent, Landlord may use, apply or retain all or any part of the Security Deposit for the payment of any Rent, or to compensate Landlord for any other loss, cost or damage which Landlord may suffer by reason of Tenant's default. If any portion of the Security Deposit is so used or applied Tenant shall, within five (5) days after notice thereof, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount, and Tenant's failure to do so shall be a breach of this Lease. Landlord shall not, unless otherwise required by law, be required to keep the Security Deposit separate from its general funds, nor pay interest to Tenant. If Landlord is required to maintain the Security Deposit in an interest bearing account, Landlord shall retain the maximum amount permitted under applicable law as a bookkeeping and administrative charge. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to the last transferee of Tenants interest hereunder) at the expiration of the Term and upon Tenant's vacation of the Premises. If the Building is sold, the Security Deposit may be transferred to the new owner, as hereinabove provided, and Landlord shall be discharged from further liability with respect thereto.

29. TENANT'S OPTIONS FOR SPACE IN BUILDING

(a) On the first anniversary of the Commencement Date (the "First Expansion Space Commencement Date"), Tenant shall add to the Premises the 5,000 square feet of Rentable Area (the "First Expansion Space") on the sixth floor of the Building depicted on Exhibit "B." Tenant shall advise Landlord of its requirements for Tenant Improvements for the First Expansion Space. Landlord shall cause preliminary improvement plans to be prepared for the construction of Tenant Improvements for the First Expansion Space and delivered to Tenant for Tenant's review and approval within two (2) weeks thereafter. Within two (2) weeks after Tenant's review and approval thereof, Landlord shall cause construction plans to be prepared and delivered to Tenant for Tenant's review and approval. Landlord shall thereafter construct Tenant Improvements for the First Expansion Space in accordance with the terms and conditions hereunder for delivery of possession of the Premises on the Commencement Date and shall deliver possession of the First Expansion Space to Tenant not more than three (3) months after Tenant's approval of construction plans for the First Expansion Space. The Base Rent for the First Expansion Space shall be as set forth below:

Month of Term		Base Rent Amount
Months 1 - 30	$1.075	per square foot of Rentable Area/month
Months 31 - 60	$1.375	per square foot of Rentable Area/month
Months 61 - 90	$1.675	per square foot of Rentable Area/month
Months 95 - 120	$1.975	per square foot of Rentable Area/month

The Tenant Improvement Allowance for the First Expansion Space shall be $22.00 per square foot of Usable Area. Before commencement of construction of the Tenant Improvements therefor, Landlord and Tenant shall amend this Lease to reflect same.

(b) Tenant shall have an option to lease the remaining space (the "Second Expansion Space") on the sixth floor of the Building on the terms and conditions set forth below. Tenant may exercise such option by giving Landlord written notice thereof at any time prior to the second anniversary of the Commencement Date. Notwithstanding the option, during the option period, Landlord may, upon not less than ten (10) days' prior written notice to Tenant, enter into a lease or leases for all or any portion of the Second Expansion Space to a tenant or tenants; provided, however, that the term of any such lease shall in no case extend past the expiration of such option period without Tenant's prior written consent, and Landlord shall be responsible for causing such tenant or tenants to vacate the Second Expansion Space not later than the expiration of such option period if Tenant exercises its option to lease the Second Expansion Space. If, during the option period, prior to Tenant's exercise of its option, Landlord receives a bona fide offer from an unaffiliated third party for space that includes the Second Expansion Space, and no single space of the same size in the Project other than the Second Expansion Space is available for such Tenant, Landlord shall promptly deliver a copy of such offer to Tenant. Tenant shall have seven (7) days from the receipt of such offer in which to give Landlord notice of Tenant's exercise of its option to lease the Second Expansion Space (i) presently at the rate set forth in the offer or (ii) on a date selected by Tenant not later than six (6) months after the date of Tenant's notice of the exercise of such option at the prevailing market rate. If Tenant fails to give such notice within such seven (7) day period, Landlord may lease the second Expansion Space to the third party at a rate and on economic terms not more favorable than those set forth in the offer. Tenant's failure to deliver a notice of exercise to Landlord within such seven (7) day period shall not cause the option to terminate unless Landlord and such third party enter into a lease for the Second Expansion Space at a rate at or above the the rate of which Tenant was previously given notice. If Tenant leases the Second Expansion Space following an offer to lease by a third party, as described above, the Base Rent and Expense Stop for the Second Expansion Space shall be as set forth in such offer, and otherwise the Base Rent and the Expense Stop shall be determined as the "prevailing market *rate" for the Second Expansion Space, as* provided in Section 7.2. The Tenant Improvement allowance shall be, in any case, $22.00 per square foot of Rentable Area. Following Tenant's delivery to Landlord of any such notice of Tenant's exercise of such option, Tenant shall advise Landlord of its requirements for Tenant Improvements for the Second Expansion Space. Landlord shall cause preliminary improvement plans to be prepared for the construction of Tenant Improvements for the Second Expansion Space and delivered to Tenant for Tenant's review and approval within two (2) weeks thereafter. Within two (2) weeks after Tenant's review and approval thereof, Landlord shall cause construction plans to be prepared and delivered to Tenant for Tenant's review and approval. Landlord shall thereafter construct Tenant Improvements for the Second Expansion Space in accordance with the terms and conditions hereunder for delivery of possession of the Premises and shall deliver possession of the Second Expansion Space to Tenant in accordance within three (3) months after Tenant's approval of construction plans for the Second Expansion Space. Before commencement of the construction of the Tenant Improvements therefor, Landlord and Tenant shall amend this Lease to add the Second Expansion Space to the Premises.

(c) The conditions set forth in Section 7.5 relating to the options to extend the Term set forth in Article 7 shall also constitute conditions precedent to Tenant exercise of the options set forth in this Article 29.

30. BROKERAGE FEES.

Landlord represents to Tenant that it has not employed, or dealt or negotiated with, any broker or real estate agent in connection with the execution and delivery of this Lease other than Cushman & Wakefield, Stephen Daniels Commercial Brokerage, Inc. and Grisham & Associates, Inc. Landlord represents, warrants, covenants and agrees that Landlord shall pay all fees, costs and expenses of the aforementioned brokers (other than pursuant to the Grisham Engagement Letter (as hereinafter defined)). Landlord agrees to indemnify and hold harmless Tenant from and against any and all claims, costs, expenses and liabilities arising out of or in connection with any breach of the foregoing representations and warranties by Landlord. Tenant represents to Landlord that it has not employed, or dealt or negotiated with, any broker or real estate agent in connection with the execution and delivery of the Lease other than Cushman & Wakefield, Stephen Daniels Commercial Brokerage, Inc. and Grisham & Associates, Inc. Tenant represents, warrants, covenants and agrees that Tenant shall pay all fees, costs and expenses payable to Grisham & Associations, Inc. pursuant to the engagement letter between

Tenant and Grisham & Associates, Inc. dated October 24, 1991 (the "Grisham Engagement Letter"). Tenant agrees to indemnify and hold harmless Landlord from and against any and all claims, costs, expenses and liabilities arising out of or resulting from any breach of the foregoing representations of Tenant.

31. RULES AND REGULATIONS.

Tenant shall abide by all rules and regulations promulgated by Landlord from time to time. The existing rules and regulations of the Building are attached as Exhibit "E" and are incorporated by reference.

32. NOTICES.

All notices, approvals and demands permitted or required to be given under this Lease shall be in writing and deemed duly served or given if personally delivered or sent by certified or registered U.S. Mail, postage prepaid, and addressed as follows: (a) if to Landlord, to Landlord's Mailing Address; and (b) if to Tenant, to Tenant's Mailing Address; provided, however, notices to Tenant shall be deemed duly served or given if delivered or mailed to Tenant at the Premises. Landlord and Tenant may, from time to time by notice to the other, designate another place for receipt of future notices.

33. GOVERNMENT ENERGY OR UTILITY CONTROLS.

In the event of imposition of federal, state or local government controls, rules, regulations or restrictions on the use or consumption of energy or other utilities during the Term, both Landlord and Tenant shall be bound thereby. In the event of a difference in interpretation by Landlord and Tenant of any such controls, the interpretation of Landlord shall prevail; and Landlord shall have the right to enforce compliance therewith, including the right of entry into the Premises to effect compliance.

34. QUIET ENJOYMENT.

Landlord covenants and represents that it has full right and power to execute and perform this Lease and to grant the estate demised herein, and covenants that Tenant on paying the rent herein reserved and performing the covenants hereof shall peaceably and quietly have, hold and enjoy the Premises and all appurtenances during the Lease Term. Landlord further covenants and represents that it will on the Commencement Date place Tenant in actual possession of the Premises with the appurtenances thereto all in conformity with all applicable laws and ordinances.

35. OBSERVANCE OF LAW.

Tenant shall not use the premises or permit anything to be done in or about the premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force, and with the requirements of any board of fire insurance underwriters or other similar bodies now or hereafter constituted, relating to or affecting the condition, use or occupancy of the Premises, excluding structural changes not related to or affected by Tenant's improvements or acts. The judgment of any court of competent jurisdiction or the admission of Tenant in any action against Tenant, whether or not Landlord is a party thereto, that Tenant has violated any law, ordinance or governmental rule, regulation or requirement, shall be conclusive of that fact as between Landlord and Tenant.

36. FORCE MAJEURE.

Any prevention, delay or stoppage of work to be performed by Landlord or Tenant which is due to strikes; labor disputes; inability to obtain labor, materials, equipment of reasonable substitutes therefor; Acts of God; governmental restrictions, regulations or controls; judicial orders; enemy or hostile government actions; terrorist or criminal actions; civil commotion; fire or other casualty, or other causes beyond the reasonable control of the party obligated to perform hereunder (financial inability expected) shall excuse performance of the work by that party for a period equal to the duration of that prevention, delay or stoppage. Except as otherwise provided in this Lease, nothing in this Article 36 shall excuse or delay Tenant's obligation to pay Rent or other charges under this Lease.

37. CURING TENANT'S DEFAULTS.

If Tenant defaults in the performance of any of its obligations under this Lease, Landlord may (but shall not be obligated to), without waiving such default, perform the same for the account at the expense of Tenant. Tenant shall pay Landlord all costs of such performance promptly upon receipt of a bill therefor.

38. SIGN CONTROL/BUILDING DIRECTORY.

Tenant shall not affix, paint, erect or inscribe any sign, projection, awning, signal or advertisement of any kind to any part of the Premises, Building or Project, including, without limitation, the inside or outside of windows or doors, without the written consent of Landlord, which consent shall not be unreasonably withheld so long as such signage is not visible from outside the Project, in which case any such signage shall be in accordance with the Sign Criteria, attached as Exhibit "F." Landlord shall have the right to remove any signs or other matter installed without Landlord's permission without being liable to Tenant by reason of such removal and to charge the cost of removal to Tenant as additional rent hereunder, payable within ten (10) days of written demand by Landlord. Notwithstanding, Tenant shall be entitled to two (2) strips on the Building Directory Board and shall be entitled to monument signage on the existing monument sign for the Building at a mutually agreed upon location thereon, all at Landlord's cost and expense. Tenant shall be entitled to "eyebrow signage" on the Building, of mutually acceptable style and location, in accordance with all signage criteria of Landlord and the City of Ontario, which eyebrow signage shall be at Tenant's sole cost and expense.

39. ACCORD AND SATISFACTION; ALLOCATION OF PAYMENTS.

No payment by Tenant or receipt by Landlord of a lesser amount than the Rent provided for in this Lease shall be deemed to be other than on account of the earliest due Rent, nor shall any endorsement or statement on any check or letter accompanying any check or payment as Rent be deemed an accord and satisfaction; and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of the Rent or pursue any other remedy provided for in this Lease. In connection with the foregoing, Landlord shall have the absolute right, in its sole discretion, to apply any payment received from Tenant to any account or other payment of Tenant then not current and due or delinquent.

40. ADDENDA.

If any provision contained in an addendum to this Lease is inconsistent with any other provision herein, the provision contained in the addendum shall control, unless otherwise provided in the addendum.

41. ATTORNEYS' FEES.

If any action or proceeding is brought by either party against the other pertaining to or arising out of this Lease, the finally prevailing party shall be entitled to recover all costs and expenses, including reasonable attorneys' fees, incurred on account of such action or proceeding.

42. CAPTIONS, ARTICLES AND SECTION NUMBERS.

The captions appearing within the body of this Lease have been inserted as a matter of convenience and for reference only and in no way define, limit or enlarge the scope or meaning of this Lease. All references to article and section numbers refer to articles and sections in this Lease.

43. CHOICE OF LAW.

This Lease shall be construed and enforced in accordance with the laws of the State.

44. CORPORATE AUTHORITY.

If Tenant is a corporation, each individual signing this Lease on behalf of Tenant represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of the corporation and that this Lease is binding on Tenant in accordance with its terms. Tenant shall, at Landlord's request, deliver a certified copy of a resolution of its board of directors authorizing such execution.

45. COUNTERPARTS.

This Lease may be executed in multiple counterparts, all of which shall constitute one and the same Lease.

46. EXECUTION OF LEASE; NO OPTION.

The submission of this Lease to Tenant shall be for examination purposes only and does not and shall not constitute a reservation of or option for Tenant to lease, or otherwise create any interest of Tenant in, the Premises or any other premises within the Building or Project. Execution of this Lease by Tenant and its return to Landlord shall not be binding on Landlord notwithstanding any time interval until Landlord has in fact signed and delivered this Lease to Tenant.

47. FURNISHING OF FINANCIAL STATEMENTS; TENANT'S REPRESENTATIONS.

In order to induce Landlord to enter into this Lease, Tenant agrees that it shall promptly furnish Landlord, no more frequently that once per quarter throughout the Term, upon Landlord's written request, with financial statements reflecting Tenant's current financial condition. Tenant represents and warrants that all financial statements, records and information furnished by Tenant to Landlord in connection with this Lease are true, correct and complete in all respects.

48. MORTGAGEE PROTECTION.

Tenant agrees to send, by certified or registered mail, to any first mortgagee or first deed of trust beneficiary of Landlord whose address has been furnished to Tenant, a copy of any notice of default served by Tenant on Landlord in accordance with the provisions hereof. If Landlord fails to cure such default within the time provided for in this Lease, such mortgagee or beneficiary shall have an additional thirty (30) days to cure such default; provided that if such default cannot reasonably be cured within that thirty (30) day period, then such mortgagee or beneficiary shall have such additional time to cure the default as is reasonably necessary under the circumstances.

49. RECORDING.

Tenant shall not record this Lease without the prior written consent of Landlord. Landlord, upon the request of Tenant shall execute and acknowledge a "short form" memorandum of this Lease for recording purposes.

50. SEVERABILITY.

A final determination by a court of competent jurisdiction that any provision of this Lease is invalid shall not affect the validity of any other provision, and any provision so determined to be invalid shall, to the extent possible, be construed to accomplish its intended effect.

51. SUCCESSORS AND ASSIGNS.

This Lease shall apply to and bind the heirs, personal representatives and permitted successors and assigns of the parties.

52. TIME OF THE ESSENCE.

Time is of the essence of this Lease.

53. WAIVER.

No delay or omission in the exercise of any right or remedy of Landlord upon any default by Tenant shall impair such right or remedy to be construed as a waiver of such default.

53.1 Delinquent Rent. The receipt and acceptance by Landlord of delinquent Rent shall not constitute a waiver of any other default; it shall constitute only a waiver of timely payment for the particular Rent payment involved.

53.2 Surrender. No act or conduct of Landlord, including, without limitation, the acceptance of keys to the Premises, shall constitute an acceptance of the surrender of the Premises by Tenant before the expiration of the Term. Only a written notice from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish a termination of the Lease.

53.3 Subsequent Acts. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant.

53.4 Waiver of Default. Any waiver by Landlord of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision of the lease.

54. DISPUTES TO BE SETTLED BY ARBITRATION.

Any dispute, controversy or disputed claim arising under, in connection with or relating to this Lease, as well as any amendment, purported amendment or termination, or any breach or violation thereof, shall be finally settled and determined under and pursuant to arbitration as set forth in this Section 54.

(a) If one party by written notification requests the other that such matter be so determined:

(i) each party shall, within ten (10) business days thereafter, appoint an arbitrator and such party shall notify the other party of the name and address of the arbitrator so appointed;

(ii) if either party shall fail to make such appointment and to serve notice thereof within the time prescribed, then the appointment of an arbitrator on behalf of such party shall be made in the same manner as provided in paragraph (a)(iv) of this Article

(iii) the arbitrators so appointed shall meet within ten (10) business days after the second arbitrator is appointed and render their decision within thirty (30) days therefrom; render their decision within thirty (30) days therefrom;

(iv) if for any reason such two arbitrators fail to agree on such matter within such period of thirty (30) days, they shall appoint a third arbitrator, and in the event of their failure to agree upon such third arbitrator within ten (10) business days after the time prescribed, either party on behalf of both may request such appointment by the presiding Judge of the San Bernardino Superior Court having jurisdiction in the City of Ontario for the appointment of such third arbitrator and the other party shall not raise any question as to the Court's full power and jurisdiction to entertain the application and make the appointment; and

(v) the determination of such matter by any two (2) of such three (3) arbitrators shall be given within a period of thirty (30) days (or such longer period as may be reasonable in light of the circumstances) after the appointment of the second or third arbitrator, as applicable, and shall in all cases be binding upon the parties. If any arbitrator shall die, become disqualified or incapacitated, or shall fail or refuse to act before such matter shall have been determined, then, in place of such arbitrator, an arbitrator shall promptly be appointed in the same manner as the arbitrator who shall have died or become disqualified or incapacitated, or who shall have failed or refused to act.

(b) All arbitration shall be finally determined in the City of Ontario and shall be governed (except for the method of selection of arbitrators) in accordance with the Rules of the American Arbitration Association (or any successor thereto); provided however, that notwithstanding any of the provisions of such rules the parties shall have the right to take depositions and to obtain discovery regarding the subject matter of the arbitration, and, to that end, to use and exercise all of the same rights, remedies and procedures, and be subject to all of the same duties, liabilities and obligations in the arbitration with respect to the subject matter thereof, as are set out in the California Code of Civil Procedure, as if the subject matter of the arbitration were pending in a civil action before a superior court of the State. This agreement to arbitrate shall be self-executing without the necessity of filing any action in any court and shall be specifically enforceable under the prevailing arbitration law.

(c) The decision of the arbitrators shall be final and binding on both parties and may be enforced in any court having jurisdiction thereof whether or not one party fails to appear in the arbitration proceeding. All awards may be filed with the clerk of one or more courts, state or federal, having jurisdiction over the party of its property against whom such an award is rendered, and such filing shall serve as a basis of judgment and of the issuance of execution for its collection.

and shall pay all costs and fees, including reasonable attorneys fees, of the prevailing party.

(d) Nothing in this Lease shall be deemed to prevent the arbitration panel from exercising authority to permit exercise by a party of its legal remedies, and it is understood by the parties that it is not intended in this Lease that there be a waiver of a party's right to any remedy which may be enforced through arbitration, specifically including, but not by way of limitation, the right of setoff, injunctive relief or specific performance.

55. MISCELLANEOUS.

The Lease is also governed by the following:
(a) no provision shall be construed to create any joint venture, partnership or agency relationship between the parties or any of their respective Related Parties;
(b) whenever required, all references to the singular shall include the plural, and references to the male gender shall include the female gender, and vice versa; and (c) no rule of strict construction shall be applied against any party. Unless otherwise specifically provided, all references to Sections, Articles and Exhibits shall be to the Sections, Articles and Exhibits hereof and hereto. All Exhibits hereto are incorporated herein by the references thereto in this Lease.

56. VIEW RIGHTS.

Landlord does not warrant that any view from the Premises will not be disturbed during the Lease term. Tenant acknowledges that there is substantial construction anticipated in the location of the Building, and such construction could conceivably obstruct any view currently seen from the Premises.

57. NONDISCRIMINATION.

Tenant herein covenants by and for itself, its Related Parties and all persons claiming under or through it, and this Lease is made and accepted upon and subject to the following conditions: that there shall be no discrimination against or segregation of any person or group of persons, on account of race, color, sex, creed, national origin or ancestry, in the leasing, subleasing, transferring, use, occupancy, tenure or enjoyment of the Premises herein leased; nor shall Tenant itself, nor any person claiming under or through it, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees or vendees of the Premises.

58. PRIOR AGREEMENTS; AMENDMENTS.

This Lease contains all of the agreements of the parties with respect to any matter covered or mentioned in this Lease, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provisions of this Lease may be amended or added to except by an agreement in writing signed by the parties or their respective successors in interest.

The parties hereto have executed this Lease as of the dates set forth below.

"LANDLORD"

ONTARIO LAKESHORE PARTNERS, L.P.,
a California limited partnership

By: Ontario Shore Partners, L.P.,
a California limited partnership,
general partner

By: Centremark, a California
general partnership,
general partner

By: Cruz Properties, Inc.,
a California corporation,
general partner

By: ______________________
Dennis S. Cruzan, President

By: Structural Equities, Inc., a
California corporation,
general partner

By: ______________________
Steven L. Black, President

"TENANT"

Curaflex Health Services, Inc.,
a Delaware corporation

By: ______________________
Its: Vice President

EXHIBIT "A"

Commencement Date Amendment

Exhibit "A"

EXHIBIT "A"

CURAFLEX HEALTH SERVICES, INC.

FIRST AMENDMENT TO LEASE

That lease (the "Lease") between Ontario Lakeshore Partners, L.P., a California limited partnership, as Landlord, and Curaflex Health Services, Inc., a Delaware corporation, as Tenant, dated as of July 19, 1991 is amended as follows:

1. The Commencement Date, defined in Section 2.2 of the Lease, is __________________________________.

All other terms and conditions of the Lease shall remain in full force and effect.

LANDLORD:

ONTARIO LAKESHORE PARTNERS, L.P., a California limited partnership

By: Ontario Shore Partners, L.P., a California limited partnership, general partner

By: Centremark, a California general partnership, general partner

By: Cruz Properties, Inc., a California corporation, general partner

By:____
Dennis S. Cruzan, President

By: Structural Equities, Inc., a California corporation, general partner

By:____
Steven L. Black, President

TENANT:

CURAFLEX HEALTH SERVICES, INC.,
a Delaware corporation

By:____
Its:

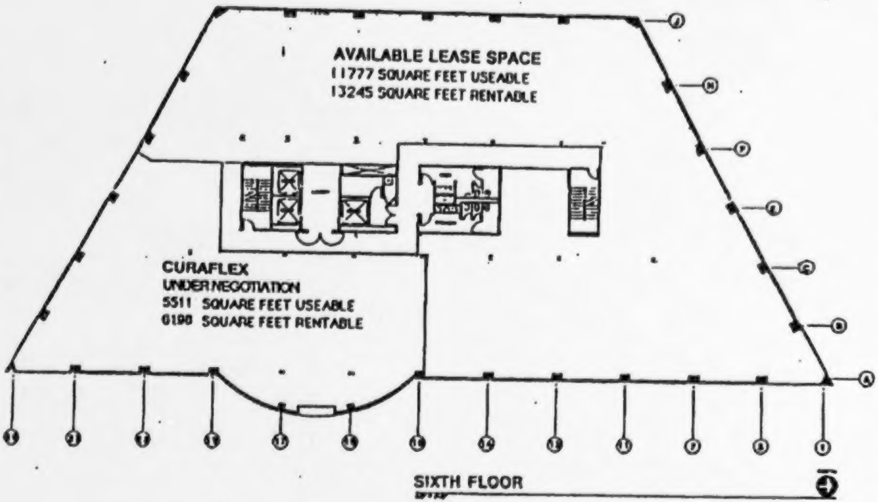
__________ Tenant   __________ Landlord

EXHIBIT "B"

Floor Plan

Exhibit "B"

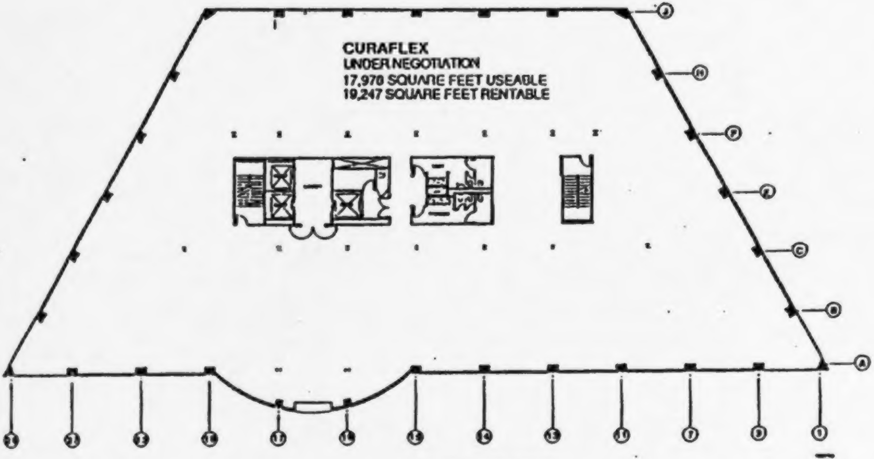
EXHIBIT B-1


AVAILABLE LEASE SPACE
11777 SQUARE FEET USEABLE
13245 SQUARE FEET RENTABLE
CURAFLEX
UNDER NEGOTIATION
5511 SQUARE FEET USEABLE
6190 SQUARE FEET RENTABLE

SIXTH FLOOR

MARCH 1992

EXHIBIT B-2


CURAFLEX
UNDER NEGOTIATION
17,970 SQUARE FEET USEABLE
19,247 SQUARE FEET RENTABLE
J
H
F
E
C
B
A

SEVENTH FLOOR

JANUARY 1992

EXHIBIT "C"

Site Plan

Exhibit "C"

EXHIBIT "C"

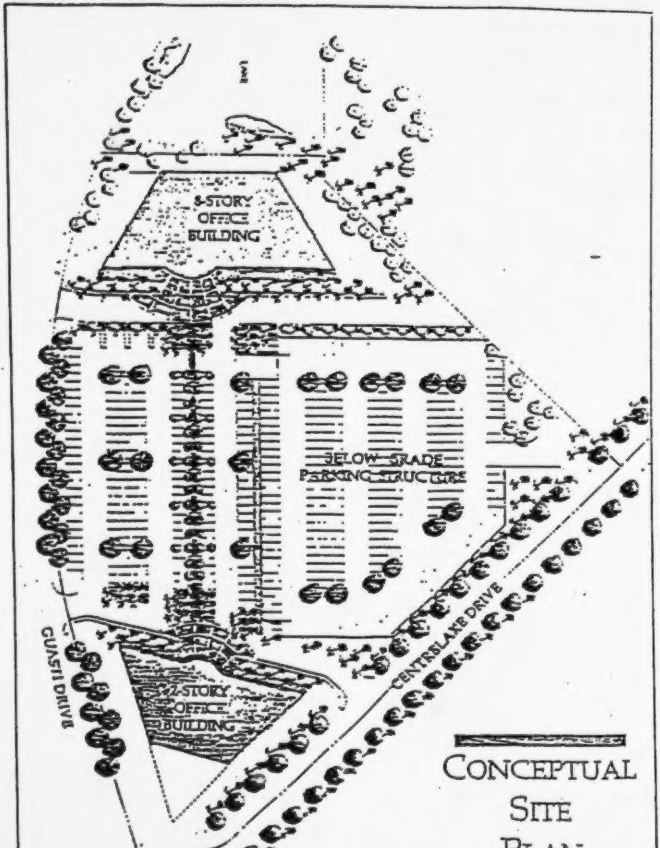

3-STORY OFFICE BUILDING
BELOW GRADE PARKING STRUCTURE
2-STORY OFFICE BUILDING
GUASTI DRIVE
CENTRELAKE DRIVE
CONCEPTUAL SITE PLAN

EXHIBIT "D"

Work Letter Agreement

EXHIBIT "D"
WORK LETTER AGREEMENT
(IMPROVEMENT ALLOWANCE)

Gentlemen:

You (hereinafter called "Tenant") and we (hereinafter called 'Landlord") are executing simultaneously with this work letter agreement ("Work Letter"), a written lease (the "Lease") covering those certain premises more particularly described in Exhibit "B" to the Lease (hereinafter referred to as "Premises").

In consideration of Tenant entering into the Lease, and in consideration of the mutual covenants hereinafter contained, Landlord and Tenant mutually agree as follows:

1. Appointment of Representatives.

Landlord hereby appoints Jack Stouse (619) 535-2700 of Centremark as Landlord's representative ("Landlord's Representative") to act for Landlord in all matters covered by the Work Letter. Tenant appoints Kevin Higgins (714) 941-3430 as Tenant's representative ("Tenant's Representative") to act for Tenant in all matters covered by the Work Letter. All inquiries, requests, instructions, authorizations and other communications with respect to the matters covered by this Work Letter will be made to Landlord's Representative or Tenant's Representative, as the case may be. Tenant will not make any inquiries of or requests to, and will not give any instructions or authorizations to any other employee of agent of Landlord, including Landlord's architect, engineers and contractors or any of their agents or employees with regard to matters covered by this Work Letter. Either Landlord or Tenant may change its representative at any time by written notice to the other.

2. Plans and Specifications for the Premises.

Within three (3) business days after Tenant receives a copy of the Lease executed by Landlord, Tenant will meet with Landlord's space planner and provide such information as may be necessary to enable Landlord's space planner to prepare detailed space plans and specifications for the Premises which shall include, but shall not be limited to, locations of doors, partitioning, reflected ceiling, electrical fixtures, outlets and switches, telephone outlets, plumbing fixtures, extraordinary floor loads, and other special requirements (the "Preliminary Plans") for the construction of the "Leasehold

Improvements". The Preliminary Plans shall be prepared by Landlord's space planner and delivered to Tenant within seven (7) business days thereafter. Within three (3) business days after receipt of the Preliminary Plans, Tenant shall notify Landlord's space planner of any corrections or modifications which Tenant desires. Within four (4) business days thereafter, Landlord's space planner shall make such corrections or modifications and deliver the Preliminary Plans to Tenant. Tenant shall approve the Preliminary Plans in writing three (3) business days thereafter, and return the Preliminary Plans to Landlord. The Preliminary Plans shall be specific enough for Landlord to obtain construction bids and to prepare the Cost Estimate (defined below).

(a) All working drawings shall be prepared by Landlord's space planner. The working drawings shall include architectural, mechanical, and electrical drawings for the Leasehold Improvements as described in Section 2 hereof.

(b) If Tenant selects interior finish items such as wall paint or coverings, fixtures, and carpeting other than Landlord's Building Standard items (a copy of a list of which Building Standard items is attached as Exhibit 1 to this Work Letter), Tenant shall notify Landlord of all such selections in writing within five (5) business days after the approved Preliminary Plans are delivered to Landlord. Whether and the extent to which any of the Leasehold Improvements constitute Non-Building Standard Work shall be determined by Landlord's space planner, which determination shall be conclusive.

(c) All plans, specifications and drawings referred to in this Section 2 are subject to Landlord's approval, which approval shall not be unreasonably withheld or delayed.

(d) Landlord shall ensure that the plans and specifications for the Leasehold Improvements shall not be in conflict with the building codes for the city in which the Premises are located or with insurance regulations for a fire resistive Class A building. All plans and specifications shall be in a form satisfactory to appropriate governmental authorities responsible for issuing permits and licenses required for construction, and Landlord shall be responsible therefor. Landlord shall obtain all necessary permits and licenses required for construction.

3. Construction of Leasehold Improvements.

Landlord agrees to have constructed the Leasehold Improvements as indicated on the approved plans, specifications and drawings.

4. Tenant Improvement Allowance.

(a) Landlord shall provide to Landlord shall provide Tenant with a monetary allowance (the "Tenant Improvement Allowance") to be applied toward the cost of constructing the Leasehold Improvements.

(b) Subject to Section 11.1 of the Lease, the Tenant Improvement Allowance shall be $634,203.00 (which is the product of 23,489 square feet of Usable Area in the Premises times $27.00 per usable square foot of Usable Area) to be credited by Landlord toward the "Costs" of constructing the Leasehold Improvements. As used herein, the term "Costs" shall mean and refer to all costs expended by Landlord relative to the construction of the Leasehold Improvements, which shall include, but shall not be limited to, costs of equipment, material and labor; contractor's field overhead, fees and standard general conditions; costs of preparation of preliminary space plans and specifications or working drawings; governmental agency fees; costs of any requirements regarding construction which are imposed by any federal, state or local governmental entity or agency which are not reflected in the approved Preliminary Plans or working drawings for the Leasehold Improvements; sales and use taxes (but not real property taxes); permits; plan check fees; bonds and other costs directly related to the construction of the Leasehold Improvements. Notwithstanding, Costs shall not include costs required to cause the Premises to comply with any legal requirements (other than those specifically resulting from Tenant's special requirements for the Leasehold Improvements), costs incurred in connection with building service equipment, legal fees arising from any construction disputes, mechanics' lien bond premiums, overtime charges, and penalties or late charges arising from Landlord's failure to pay construction costs. If Landlord or Landlord's affiliate performs the construction, Landlord (or such affiliate) shall receive an amount equal to a standard contractor fee and general conditions, which fees shall not be duplicative of any fees paid to any third party contractor or exceed the amount payable to any third party contractor if a contract for the construction were let in a competitive bidding process.

(c) After approval of the Preliminary Plans, Landlord shall prepare and deliver to Tenant as soon as reasonably possible, an estimate of the Costs of the Leasehold Improvements (the "Cost Estimate"). (Landlord has previously delivered to Tenant a preliminary cost estimate, and Landlord agrees that the amount of the Cost Estimate will not exceed the amount of the preliminary cost estimate.) Tenant shall deliver its written approval, disapproval or modifications to the Cost Estimate to Landlord within three (3) business days after receipt of the Cost Estimate together with payment of one-half (1/2) of that portion of the Cost Estimate, if any, which is in excess of the Tenant Improvement Allowance. The remaining one-half (1/2) of such costs shall be paid by Tenant upon occupancy of the Premises. Any disapproved items shall be eliminated from the Leasehold Improvements, so long as such elimination does not cause the Leasehold Improvements to be in conflict with any governmental requirements. The Cost Estimate shall be binding on Landlord and Tenant and the Costs to which the Tenant Improvement Allowance shall be credited and which Tenant will be obligated to pay if such Costs exceed the Tenant Improvement Allowance shall not exceed the amount of the Cost Estimate, subject to any increases in Costs resulting from changes made by Tenant in accordance with Section 5 of this Work Letter or any costs resulting from Tenant Delay as defined in the Lease). Simultaneously with the delivery of the Cost Estimate Landlord shall provide Tenant with a construction schedule for the completion of the Leasehold Improvements. Landlord will use its best efforts to comply with the construction schedule, which will be subject to revision resulting from any changes made pursuant to Section 5 of this Work Letter or from Tenant Delay or matters beyond Landlord's control.

5. Change Orders.

Tenant may authorize changes in the work during construction only by written instructions to Landlord's Representative on a form approved by Landlord (in that format attached as Exhibit 2 to this Work Letter). All such changes will be subject to Landlord's prior written approval. Before commencing any change, Landlord will prepare and deliver to Tenant, for Tenant's approval, a change order setting forth the cost of such change, which will include associate architectural, engineering and construction contractor's fees, if any. If Tenant fails to approve such change order within five (5) business days, Tenant will be deemed to have withdrawn the proposed change and Landlord will not proceed to perform the change. If Tenant timely approves such change order, Tenant will immediately pay to Landlord any amounts payable by Tenant in connection with the change order as provided in this Section.

6. Completion and Rental Commencement Date.

The provisions of Sections 2.15 and 2.16 of the Lease are further explained and clarified as follows:

It is agreed that Tenant's obligation for the payment of rental under the Lease shall not commence until Landlord has substantially completed all work to be performed by Landlord as hereinabove set forth in Section 3, provided, however, that if Landlord shall be delayed in substantially completing said work as a result of:

(a) Tenant's failure to approve or finish its space plans and specifications by the times specified in Section 2 above;

(b) Delays of any nature, whether or not within Tenant's control, resulting from Tenant's decision to use any materials, finishes or installations other than Building Standard;

(c) Tenant's changes in its space plans and specifications after approval and delivery of same to Landlord;

(d) A delay in performance as a result of Tenant's failure to approve written estimates of the costs of the Leasehold improvements or substituted materials in accordance with Section 2 hereof;

(e) Changes in the work requested by or on behalf of Tenant or orders to halt or delay the work by or on behalf of Tenant; or

(f) Any other delay of any kind or nature caused by Tenant, its employees, agents or contractors, then the term of the Lease hall commence on the date the Leasehold Improvements would have been completed but for such delay, regardless of any contrary provisions of the Lease.

7. Responsibility for Design.

Tenant will be responsible for the design, function and maintenance of all improvements which are not made in connection with this Work Letter, whether or not approved by Landlord or installed by Landlord at Tenant's request. Landlord's preparation of the Tenant working drawings will not constitute any representation or warranty as to the adequacy, efficiency, performance or desirability of any space layout or improvements.

LANDLORD:

Ontario Lakeshore Partners, L.P.,
a California limited partnership

By: Centremark, a California general partnership,
general partner

By: Cruz Properties, Inc., a California corporation,
general partner

By: ______________________________
Dennis S. Cruzan, President

By: Structural Equities, Inc., a California
corporation, general partner

By: ______________________________
Steven L. Black, President

ACCEPTED:

TENANT:

Curaflex Health Services, Inc.,
a Delaware corporation

By: ______________________________
Its: ______________________________

EXHIBIT "D"
WORK LETTER AGREEMENT
(IMPROVEMENT ALLOWANCE)

Gentlemen:

You (hereinafter called "Tenant") and we (hereinafter called 'Landlord") are executing simultaneously with this work letter agreement ("Work Letter"), a written lease (the "Lease") covering those certain premises more particularly described in Exhibit "B" to the Lease (hereinafter referred to as "Premises").

In consideration of Tenant entering into the Lease, and in consideration of the mutual covenants hereinafter contained, Landlord and Tenant mutually agree as follows:

1. Appointment of Representatives.

Landlord hereby appoints Jack Stouse (619) 535-2700 of Centremark as Landlord's representative ("Landlord's Representative") to act for Landlord in all matters covered by the Work Letter. Tenant appoints Kevin Higgins (714) 941-3430 as Tenant's representative ("Tenant's Representative") to act for Tenant in all matters covered by the Work Letter. All inquiries, requests, instructions, authorizations and other communications with respect to the matters covered by this Work Letter will be made to Landlord's Representative or Tenant's Representative, as the case may be. Tenant will not make any inquiries of or requests to, and will not give any instructions or authorizations to any other employee of agent of Landlord, including Landlord's architect, engineers and contractors or any of their agents or employees with regard to matters covered by this Work Letter. Either Landlord or Tenant may change its representative at any time by written notice to the other.

2. Plans and Specifications for the Premises.

Within three (3) business days after Tenant receives a copy of the Lease executed by Landlord, Tenant will meet with Landlord's space planner and provide such information as may be necessary to enable Landlord's space planner to prepare detailed space plans and specifications for the Premises which shall include, but shall not be limited to, locations of doors, partitioning, reflected ceiling, electrical fixtures, outlets and switches, telephone outlets, plumbing fixtures, extraordinary floor loads, and other special requirements (the "Preliminary Plans") for the construction of the "Leasehold

Improvements". The Preliminary Plans shall be prepared by Landlord's space planner and delivered to Tenant within seven (7) business days thereafter. Within three (3) business days after receipt of the Preliminary Plans, Tenant shall notify Landlord's space planner of any corrections or modifications which Tenant desires. Within four (4) business days thereafter, Landlord's space planner shall make such corrections or modifications and deliver the Preliminary Plans to Tenant. Tenant shall approve the Preliminary Plans in writing three (3) business days thereafter, and return the Preliminary Plans to Landlord. The Preliminary Plans shall be specific enough for Landlord to obtain construction bids and to prepare the Cost Estimate (defined below).

(a) All working drawings shall be prepared by Landlord's space planner. The working drawings shall include architectural, mechanical, and electrical drawings for the Leasehold Improvements as described in Section 2 hereof.

(b) If Tenant selects interior finish items such as wall paint or coverings, fixtures, and carpeting other than Landlord's Building Standard items (a copy of a list of which Building Standard items is attached as Exhibit 1 to this Work Letter), Tenant shall notify Landlord of all such selections in writing within five (5) business days after the approved Preliminary Plans are delivered to Landlord. Whether and the extent to which any of the Leasehold Improvements constitute Non-Building Standard Work shall be determined by Landlord's space planner, which determination shall be conclusive.

(c) All plans, specifications and drawings referred to in this Section 2 are subject to Landlord's approval, which approval shall not be unreasonably withheld or delayed.

(d) Landlord shall ensure that the plans and specifications for the Leasehold Improvements shall not be in conflict with the building codes for the city in which the Premises are located or with insurance regulations for a fire resistive Class A building. All plans and specifications shall be in a form satisfactory to appropriate governmental authorities responsible for issuing permits and licenses required for construction, and Landlord shall be responsible therefor. Landlord shall obtain all necessary permits and licenses required for construction.

3. Construction of Leasehold Improvements.

Landlord agrees to have constructed the Leasehold Improvements as indicated on the approved plans, specifications and drawings.

4. Tenant Improvement Allowance.

(a) Landlord shall provide to Landlord shall provide Tenant with a monetary allowance (the "Tenant Improvement Allowance") to be applied toward the cost of constructing the Leasehold Improvements.

(b) Subject to Section 11.1 of the Lease, the Tenant Improvement Allowance shall be $634,203.00 (which is the product of 23,489 square feet of Usable Area in the Premises times $27.00 per usable square foot of Usable Area) to be credited by Landlord toward the "Costs" of constructing the Leasehold Improvements. As used herein, the term "Costs" shall mean and refer to all costs expended by Landlord relative to the construction of the Leasehold Improvements, which shall include, but shall not be limited to, costs of equipment, material and labor; contractor's field overhead, fees and standard general conditions; costs of preparation of preliminary space plans and specifications or working drawings; governmental agency fees; costs of any requirements regarding construction which are imposed by any federal, state or local governmental entity or agency which are not reflected in the approved Preliminary Plans or working drawings for the Leasehold Improvements; sales and use taxes (but not real property taxes); permits; plan check fees; bonds and other costs directly related to the construction of the Leasehold Improvements. Notwithstanding, Costs shall not include costs required to cause the Premises to comply with any legal requirements (other than those specifically resulting from Tenant's special requirements for the Leasehold Improvements), costs incurred in connection with building service equipment, legal fees arising from any construction disputes, mechanics' lien bond premiums, overtime charges, and penalties or late charges arising from Landlord's failure to pay construction costs. If Landlord or Landlord's affiliate performs the construction, Landlord (or such affiliate) shall receive an amount equal to a standard contractor fee and general conditions, which fees shall not be duplicative of any fees paid to any third party contractor or exceed the amount payable to any third party contractor if a contract for the construction were let in a competitive bidding process.

(c) After approval of the Preliminary Plans, Landlord shall prepare and deliver to Tenant as soon as reasonably possible, an estimate of the Costs of the Leasehold Improvements (the "Cost Estimate"). (Landlord has previously delivered to Tenant a preliminary cost estimate, and Landlord agrees that the amount of the Cost Estimate will not exceed the amount of the preliminary cost estimate.) Tenant shall deliver its written approval, disapproval or modifications to the Cost Estimate to Landlord within three (3) business days after receipt of the Cost Estimate together with payment of one-half (1/2) of that portion of the Cost Estimate, if any, which is in excess of the Tenant Improvement Allowance. The remaining one-half (1/2) of such costs shall be paid by Tenant upon occupancy of the Premises. Any disapproved items shall be eliminated from the Leasehold Improvements, so long as such elimination does not cause the Leasehold Improvements to be in conflict with any governmental requirements. The Cost Estimate shall be binding on Landlord and Tenant and the Costs to which the Tenant Improvement Allowance shall be credited and which Tenant will be obligated to pay if such Costs exceed the Tenant Improvement Allowance shall not exceed the amount of the Cost Estimate, subject to any increases in Costs resulting from changes made by Tenant in accordance with Section 5 of this Work Letter or any costs resulting from Tenant Delay as defined in the Lease). Simultaneously with the delivery of the Cost Estimate Landlord shall provide Tenant with a construction schedule for the completion of the Leasehold Improvements. Landlord will use its best efforts to comply with the construction schedule, which will be subject to revision resulting from any changes made pursuant to Section 5 of this Work Letter or from Tenant Delay or matters beyond Landlord's control.

5. Change Orders.

Tenant may authorize changes in the work during construction only by written instructions to Landlord's Representative on a form approved by Landlord (in that format attached as Exhibit 2 to this Work Letter). All such changes will be subject to Landlord's prior written approval. Before commencing any change, Landlord will prepare and deliver to Tenant, for Tenant's approval, a change order setting forth the cost of such change, which will include associate architectural, engineering and construction contractor's fees, if any. If Tenant fails to approve such change order within five (5) business days, Tenant will be deemed to have withdrawn the proposed change and Landlord will not proceed to perform the change. If Tenant timely approves such change order, Tenant will immediately pay to Landlord any amounts payable by Tenant in connection with the change order as provided in this Section.

6. Completion and Rental Commencement Date.

The provisions of Sections 2.15 and 2.16 of the Lease are further explained and clarified as follows:

It is agreed that Tenant's obligation for the payment of rental under the Lease shall not commence until Landlord has substantially completed all work to be performed by Landlord as hereinabove set forth in Section 3, provided, however, that if Landlord shall be delayed in substantially completing said work as a result of:

(a) Tenant's failure to approve or finish its space plans and specifications by the times specified in Section 2 above;

(b) Delays of any nature, whether or not within Tenant's control, resulting from Tenant's decision to use any materials, finishes or installations other than Building Standard;

(c) Tenant's changes in its space plans and specifications after approval and delivery of same to Landlord;

(d) A delay in performance as a result of Tenant's failure to approve written estimates of the costs of the Leasehold improvements or substituted materials in accordance with Section 2 hereof;

(e) Changes in the work requested by or on behalf of Tenant or orders to halt or delay the work by or on behalf of Tenant; or

(f) Any other delay of any kind or nature caused by Tenant, its employees, agents or contractors, then the term of the Lease hall commence on the date the Leasehold Improvements would have been completed but for such delay, regardless of any contrary provisions of the Lease.

7. Responsibility for Design.

Tenant will be responsible for the design, function and maintenance of all improvements which are not made in connection with this Work Letter, whether or not approved by Landlord or installed by Landlord at Tenant's request. Landlord's preparation of the Tenant working drawings will not constitute any representation or warranty as to the adequacy, efficiency, performance or desirability of any space layout or improvements.

LANDLORD:

Ontario Lakeshore Partners, L.P.,
a California limited partnership

By: Centremark, a California general partnership,
general partner

By: Cruz Properties, Inc., a California corporation,
general partner

By: ______________________________
Dennis S. Cruzan, President

By: Structural Equities, Inc., a California
corporation, general partner

By: ______________________________
Steven L. Black, President

ACCEPTED:

TENANT:

Curaflex Health Services, Inc.,
a Delaware corporation

By: ____________________________________
Its: ______________________________

EXHIBIT "E"

Rules and Regulations

EXHIBIT "E"
RULES AND REGULATIONS
Curaflex Health Services, Inc.

1. No sign, placard, picture, advertisement, name or notice shall be installed or displayed on any part of the outside or inside of the Building without the prior written consent of Landlord. Landlord shall have the right to remove, at Tenant's expense and without notice, any sign installed or displayed in violation of this rule. All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person chosen by Landlord, using materials of Landlord's choice and in a style and format approved by Landlord.

2. Tenant must use Landlord's blinds in all exterior and atrium window offices. No awning or other projections shall be permitted on any part of the Premises. Tenant shall not place anything against or near glass partitions or doors or windows which may appear unsightly from outside the Premises.

3. Tenant shall not obstruct any sidewalks, halls, passages, exits, entrances, elevators or stairways of the Building. The halls, passages, exits, entrances, elevators and stairways are not for the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence, in the judgment of Landlord, would be prejudicial to the safety, character, reputation and interest of the Building and its tenants; provided that nothing herein contained shall be construed to prevent such access to persons with whom any tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. No tenant and no employee or invitee of any tenant shall go up on the roof of the Building.

4. The directory of the Building will be provided exclusively for the display of the name and location of tenants only, and Landlord reserves the right to exclude any other names therefrom.

5. All cleaning and janitorial services for the Building and the Premises shall be provided exclusively through Landlord, and except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be employed by Tenant or permitted to enter the Building for the purposes of cleaning the same. Tenant shall not cause any unnecessary labor by carelessness or indifference to the good order and cleanliness of the Premises. Landlord shall not in any way be responsible to any tenant for any loss of property on the Premises, however occurring, or for any damage to any tenant's property by the janitor or any other employee or any other person.

6. Landlord shall furnish Tenant, free of charge, with one key to each door lock in the Premises. Landlord may make a reasonable charge for any additional keys. Tenant shall not make or have made additional keys, and Tenant shall not alter any lock or install a new additional lock or bolt on any door of its Premises. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys of all doors which have been furnished to Tenant, and in the event of loss of any keys so furnished shall pay Landlord therefor. All doors to the common area, corridors and elevator vestibules shall remain closed at all times, unless otherwise designated by Landlord.

7. Access to the Building at times other than during Normal Business Hours will require use of a security access card, one of which will be issued by Landlord for each employee of Tenant for which Tenant requests such a security access card. Landlord shall impose for each such card a separate charge in the form of a refundable deposit, to be refunded by Landlord to Tenant upon Tenant's return of said card(s) to Landlord.

8. If Tenant requires telegraphic, telephonic, burglar alarm or similar services, it shall first obtain, and comply with, Landlord's instructions in their installation.

9. Any freight elevator shall be available for use by all tenants in the Building, subject to such reasonable scheduling as Landlord, in its discretion, shall deem appropriate. No equipment, materials, furniture, packages, supplies, merchandise or other property will be received in the Building or carried in the elevators except between such hours and in such elevators as may be designated by Landlord. Moving into and out of the Building shall occur on weekends only and shall be scheduled with the Building Manager.

10. Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. Landlord shall have the right to prescribe the weight, size and position of all equipment, materials, furniture or other property brought into the Building. Heavy objects, if such objects are considered necessary by Tenant, as determined by Landlord, shall stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Business machines and mechanical equipment belonging to Tenant, which cause noise or vibration that may be transmitted to the structure of the Building or to any space within to such a degree as to be objectionable to Landlord or to any tenants in the Building, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration. The persons employed to move such equipment in or out of the Building must be acceptable to Landlord.

Landlord will not be responsible for loss of, or damage to, any such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.

11. Tenant shall not use or keep in the Premises any kerosene, gasoline or inflammable or combustible fluid or material other than those limited quantities necessary for the operation or maintenance of office equipment. Tenant shall not use or permit to be used in the Premises any foul or noxious gas or substance, or permit or allow the Premises, the Building or Project, to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, behavior, odors or vibrations, nor shall Tenant bring into or keep in or about the Premises any birds or animals.

12. Tenant shall not use any method of heating or air-conditioning other than that supplied by Landlord.

13. Tenant shall not waste electricity, water or air-conditioning and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air-conditioning and to comply with any governmental energy-saving rules, laws or regulations of which Tenant has actual notice, and shall refrain from attempting to adjust controls other than room thermostats installed for Tenant's use. Tenant shall keep corridor doors closed, and shall close window coverings at the end of each business day.

14. Landlord reserves the right to exclude from the Building between the hours of 6:00 p.m. and 7:00 a.m. the following day, or such other hours as may be established from time to time by Landlord, and on Sundays and legal holidays, any person unless that person is known to the person or employee in charge of the Building and has a pass or is properly identified. Tenant shall be responsible for all persons for whom it requests passes and shall be liable to Landlord for all acts of such persons. Landlord shall not be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. Landlord reserves the right to prevent access to the Building in case of invasion, mob, riot, public excitement or other commotion by closing the doors or by other appropriate actions.

15. Tenant shall close and lock the doors of its Premises and entirely shut off all water faucets or other water apparatus, and electricity, gas or air outlets before Tenant and its employees leave the Premises. Tenant shall be responsible for any damage or injuries sustained by other tenants or occupants of the Building or by Landlord for noncompliance with this rule.

16. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose employees or invitees, shall have caused it.

17. Tenant shall not sell, or permit the sale at retail, of newspapers, magazines, periodicals, theater tickets or any other goods or merchandise to the general public in or on the Premises. Tenant shall not make any room-to-room solicitation of business from other tenants in the Building. Tenant shall not use the Premises for any business or activity other than that specifically provided for in Tenant's Lease.

18. Tenant shall not install any radio or television antenna, loudspeaker or other device on the roof or exterior walls of the Building. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building or elsewhere.

19. Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises or any part hereof, except to install normal wall hangings. Landlord reserves the right to direct electricians as to where and how telephone and telegraph wires are to be introduced to the Premises. Tenant shall not cut or bore holes for wires. Tenant shall not affix any floor covering to the floor of the Premises in any manner except as approved by Landlord. Tenant shall repair any damage resulting from noncompliance with this rule.

20. Canvassing, soliciting and distribution of handbills or any other written material, and peddling in the Building are prohibited, and each tenant shall cooperate to prevent same.

21. Landlord reserves the right to exclude or expel from the Building any person who, in Landlord's judgment, is intoxicated or under the influence of liquor or drugs or who is in violation of any of the Rules and Regulations of the Building.

22. Tenant shall store all its trash and garbage within its Premises. Tenant shall not place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of trash and garbage disposal. All garbage and refuse disposal shall be made in accordance with directions issued from time to time by Landlord.

23. The Premises shall not be used for the storage of merchandise held for sale to the general public, or for lodging or manufacturing of any kind, nor shall the Premises be used for any

improper, immoral or objectionable purpose. No cooking shall be done or permitted by any tenant on the Premises, except that use by Tenant of Underwriters' Laboratory-approved equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted, and the use of a microwave shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.

24. Tenant shall not use in any space or in the public halls of the Building any hand trucks except those equipped with rubber tires and side guards or such other material-handling equipment as Landlord may approve. Tenant shall not bring any other vehicles of any kind into the Building.

25. Without the written consent of Landlord, Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

26. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

27. Tenant assumes any and all responsibility for protecting its Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed.

28. The requirements of Tenant will be attended to only upon appropriate application to the office of the Building by an authorized individual. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee of Landlord will admit any person (Tenant or otherwise) to any office without specific instructions from Landlord.

29. Tenant shall not park its vehicles in any parking areas designated by Landlord as areas for parking by visitors to the Building. Tenant shall not leave vehicles in the Building parking areas overnight nor park any vehicles in the Building parking areas other than automobiles, motorcycles, motor-driven or non-motor driven bicycles or four-wheeled trucks. Landlord may, in its sole discretion, designate separate areas for bicycles and motorcycles.

30. Tenant shall move in and out of the Premises, and have the use of the Building elevators for such purpose, only on weekends or holidays, and not during normal business hours.

31. Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant, but no such wavier by Landlord shall be construed as a waiver of such

Rules and Regulations in favor of Tenant or any other tenant, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Building.

32. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of premises in the Building.

33. Landlord reserves the right to make such other and reasonable Rules and Regulations as, in its judgment, may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order therein. Tenant agrees to abide by all such Rules and Regulations hereinabove stated and any additional rules and regulations which are adopted.

34. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

35. Landlord has the right to enact and enforce any and all smoking ordinances determined by Landlord to be desirable for the operation of the Building which may include but not be limited to limiting the number of persons smoking at any one time.

36. Tenant, its employees, invitees, agents and representatives shall not loiter, congregate, cause any nuisance to any other tenant in the Building, or members of the public, in the common areas of the Building (or Project). Landlord reserves the right to designate a particular portion of the common area as the sole area of the Project in which Tenant or its employees, invitees, agents and representatives may take any specified working breaks.

37. Any failure by Tenant, its agents, employees of invitees to comply with the provisions of this Exhibit "F" shall, subject to Section 26 of the Lease, be an event of default and allow Landlord to terminate the Lease.

EXHIBIT "F"

Sign Criteria

Exhibit "F"

EXHIBIT "F"

ONE LAKESHORE CENTRE

SIGN CRITERIA

Interior Tenant I.D. Sign Specifications:

Cut dimensional numbers and letters mounted to Tenant door with silicone adhesive

Material: .032 polished aluminum laminated to 1/4" black acrylic

Letter/Number Height: 2"

Type Style: Optima regular caps

Location: 4" left margin
All copy flush left
72" from ground to top of suite number

Landlord to order

Tenant to pay all costs of fabrication and installation

Monument Signage Criteria:

Monument Size: 8' x 4'

Number of Tenant Spaces: 6

Size of Tenant Spaces: 3'3" x 6", or 234 square inches with tenant name centered

Spacing: 6" clearance from top and outsides; 3" from each other

Letter Style: Optima regular (deviation from standard or use of logos shall be approved by Landlord)

Maximum Individual Letter Height: 4"

Letter Thickness: 1/4"

Material: Chrome finish or polished stainless steel

Application: Epoxy

Landlord to order and pay all costs of fabrication and installation

EXHIBIT "D"
WORK LETTER AGREEMENT
(IMPROVEMENT ALLOWANCE)

Gentlemen:

You (hereinafter called "Tenant") and we (hereinafter called 'Landlord") are executing simultaneously with this work letter agreement ("Work Letter"), a written lease (the "Lease") covering those certain premises more particularly described in Exhibit "B" to the Lease (hereinafter referred to as "Premises").

In consideration of Tenant entering into the Lease, and in consideration of the mutual covenants hereinafter contained, Landlord and Tenant mutually agree as follows:

1. Appointment of Representatives.

Landlord hereby appoints Jack Stouse (619) 535-2700 of Centremark as Landlord's representative ("Landlord's Representative") to act for Landlord in all matters covered by the Work Letter. Tenant appoints Kevin Higgins (714) 941-3430 as Tenant's representative ("Tenant's Representative") to act for Tenant in all matters covered by the Work Letter. All inquiries, requests, instructions, authorizations and other communications with respect to the matters covered by this Work Letter will be made to Landlord's Representative or Tenant's Representative, as the case may be. Tenant will not make any inquiries of or requests to, and will not give any instructions or authorizations to any other employee of agent of Landlord, including Landlord's architect, engineers and contractors or any of their agents or employees with regard to matters covered by this Work Letter. Either Landlord or Tenant may change its representative at any time by written notice to the other.

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(c) All plans, specifications and drawings referred to in this Section 2 are subject to Landlord's approval, which approval shall not be unreasonably withheld or delayed.

(d) Landlord shall ensure that the plans and specifications for the Leasehold Improvements shall not be in conflict with the building codes for the city in which the Premises are located or with insurance regulations for a fire resistive Class A building. All plans and specifications shall be in a form satisfactory to appropriate governmental authorities responsible for issuing permits and licenses required for construction, and Landlord shall be responsible therefor. Landlord shall obtain all necessary permits and licenses required for construction.

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(a) Tenant's failure to approve or finish its space plans and specifications by the times specified in Section 2 above;

(b) Delays of any nature, whether or not within Tenant's control, resulting from Tenant's decision to use any materials, finishes or installations other than Building Standard;

(c) Tenant's changes in its space plans and specifications after approval and delivery of same to Landlord;

(d) A delay in performance as a result of Tenant's failure to approve written estimates of the costs of the Leasehold improvements or substituted materials in accordance with Section 2 hereof;

(e) Changes in the work requested by or on behalf of Tenant or orders to halt or delay the work by or on behalf of Tenant; or

(f) Any other delay of any kind or nature caused by Tenant, its employees, agents or contractors, then the term of the Lease hall commence on the date the Leasehold Improvements would have been completed but for such delay, regardless of any contrary provisions of the Lease.

7. Responsibility for Design.

Tenant will be responsible for the design, function and maintenance of all improvements which are not made in connection with this Work Letter, whether or not approved by Landlord or installed by Landlord at Tenant's request. Landlord's preparation of the Tenant working drawings will not constitute any representation or warranty as to the adequacy, efficiency, performance or desirability of any space layout or improvements.

LANDLORD:

Ontario Lakeshore Partners, L.P.,
a California limited partnership

By: Centremark, a California general partnership,
general partner

By: Cruz Properties, Inc., a California corporation,
general partner

By: ______________________
Dennis S. Cruzan, President

By: Structural Equities, Inc., a California
corporation, general partner

By: ______________________
Steven L. Black, President

ACCEPTED:

TENANT:

Curaflex Health Services, Inc.,
a Delaware corporation

By: ______________________
Its: Vice President

LANDLORD:

Ontario Lakeshore Partners, L.P.,
a California limited partnership

By: Centremark, a California general partnership,
general partner

By: Cruz Properties, Inc., a California corporation,
general partner

By: ______________________
Dennis S. Cruzan, President

By: Structural Equities, Inc., a California
corporation, general partner

By: ______________________
Steven L. Black, President

ACCEPTED:

TENANT:

Curaflex Health Services, Inc.,
a Delaware corporation

By: ______________________

Its: Vice President

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Form 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

6/92.2258

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended	Commission File Number
March 31, 1992	033-25463

EDGEMARK FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-3059511
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Merchandise Mart Plaza, Suite 2400, Chicago, Illinois	60654
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code...(312) 836-8000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date:

Class	Outstanding at May 01, 1992
Common Stock, $1.00 par value	1,448,939

Approximately 61.10% of the outstanding shares of the issuer's Common Stock are held of record by the EdgeMark Voting Trust (the "Trust"). The seven trustees of the Trust also serve as directors of the issuer. The Trustees exercise all voting rights with respect to the shares. The Trust does not conduct any operations, other than holding the Common Stock, and will terminate on December 31, 1992.

This filing contains 12 pages.

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MAY 1992

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

EDGEMARK FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 1992 (unaudited)	DECEMBER 31, 1991
Assets		
Cash and Due from Banks	$ 28,410,283	$ 30,153,387
Federal Funds Sold	8,640,000	4,495,000
Cash and Cash Equivalents	37,050,283	34,648,387
Investment Securities (market value at 1992-$98,687,186; 1991-$123,467,737)	97,442,330	119,522,336
Loans	349,692,183	341,304,099
Less: Unearned Income	(11,980,000)	(12,097,640)
Allowance for Loan Losses	(4,552,165)	(4,446,093)
Net Loans	333,160,018	324,760,366
Premises and Equipment, Net	13,623,082	13,732,631
Interest Receivable and Other Assets	6,644,980	6,729,388
Cost in Excess of the Fair Value of Net Assets Acquired (Net of accumulated amortization in 1992-$2,573,387; 1991-$2,373,995)	17,350,585	17,550,017
Total Assets	$505,271,278	$516,963,125
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 87,175,724	$ 85,431,318
Savings, NOW and Money Market Accounts	180,834,033	182,389,206
Time Deposits	178,752,250	189,168,061
Total Deposits	446,762,007	456,988,585
Federal Funds Purchased and Securities Sold under Agreements to Repurchase		2,750,000
Accrued Expenses and Other Liabilities	4,480,128	4,075,614
Other Short-Term Funds Borrowed	11,500,000	11,500,000
Total Liabilities	462,742,135	475,314,199
Commitments and Contingent Liabilities		
STOCKHOLDERS' EQUITY		
Preferred Stock-authorized 200,000 shares of no par value, 80,000 shares of Series A Preferred Stock ($100 stated value) issued and outstanding	7,670,525	7,646,595
Common Stock-authorized 3,000,000 shares of $1.00 par value, shares issued 1,576,872	1,576,872	1,576,872
Surplus	25,614,966	25,614,966
Retained Earnings	8,786,177	7,909,890
Less: Treasury Stock at Cost(shares in 1992-127,933; 1991-127,933)	(1,119,397)	(1,119,397)
Total Stockholders' Equity	42,529,143	41,628,926
Total Liabilities and Stockholders' Equity	$505,271,278	$516,963,125

See Accompanying Notes to Consolidated Financial Statements.

EDGEMARK FINANCIAL CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED EARNINGS
(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31,	1992	1991
INTEREST INCOME		
Loans, Including Fees	$7,778,506	$ 7,788,518
Federal Funds Sold	170,600	224,847
Investment Securities:		
Taxable	1,355,574	1,536,608
Exempt from Federal Income Tax	414,782	585,182
Total Interest Income	9,719,662	10,135,155
INTEREST EXPENSE		
Deposits	4,079,687	5,040,773
Federal Funds Purchased and Repurchase Agreements	30,894	48,175
Other Short-Term Funds Borrowed	188,951	
Long-Term Debt		308,181
Total Interest Expense	4,299,532	5,397,129
Net Interest Income	5,419,930	4,738,026
Provision for Loan Losses	387,750	190,501
Net Interest Income After Provision for Loan Losses	5,032,180	4,547,525
OTHER INCOME		
Service Charges on Deposit Accounts	629,643	384,196
Net Securities Gains	211,516	17,781
Mortgage Brokerage Fees	759,265	
Other	276,759	392,663
Total Other Income	1,877,181	794,640
OTHER EXPENSE		
Salaries and Employee Benefits	2,640,532	2,061,721
Net Occupancy Expense	650,636	556,353
Furniture and Equipment	344,862	318,270
Data Processing	342,185	336,680
Marketing	86,795	78,748
Stationery and Supplies	98,989	107,636
Insurance	327,301	243,766
Directors' Fees	87,565	97,703
Legal	81,931	78,887
Mail and Courier	126,991	107,967
Amortization of Cost in Excess of the Fair Value of Net Assets Acquired	199,632	189,411
Other	580,642	479,964
Total Other Expense	5,567,641	4,637,086
Income Before Income Taxes	1,341,720	705,079
Applicable Income Taxes	271,503	116,954
Net Income	$1,070,217	$ 588,125
Net Income Applicable to Common Stock	$ 876,287	$ 379,028
Net Income Per Common and Common Equivalent Share	$0.60	$0.26
Weighted Average Common and Common Equivalent Shares Outstanding	1,454,063	1,459,803

See Accompanying Notes to Consolidated Financial Statements.

EDGEMARK FINANCIAL CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31,	1992	1991
Cash Flows from Operating Activities:		
Net Income	$ 1,070,217	$ 588,125
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Provision for Loan Losses	387,750	190,501
Amortization of Cost in Excess of the Fair Value of Net Assets Acquired	199,432	189,411
Depreciation, Amortization and Accretion	667,051	236,389
Net Securities Gains	(211,514)	(17,781)
Mortgage Loans Originated	(34,793,791)	
Mortgage Loans Sold	32,740,607	
Deferred Income Tax Benefit	(98,322)	(46,312)
Decrease (Increase) in Interest Receivable and Other Assets	182,730	(1,108,596)
Increase in Accrued Expenses and Other Liabilities	404,514	109,707
Net Cash from Operating Activities	548,674	141,444
Cash Flows from Investing Activities:		
Purchase of Investment Securities	(17,367,656)	(33,345,530)
Proceeds from Maturities of Investment Securities	24,561,628	20,672,698
Proceeds from Sales of Investment Securities	14,932,118	18,711
Net (Increase) in Loans	(6,636,105)	(1,572,369)
Purchase of Premises and Equipment, Net	(509,111)	(368,689)
Net Cash from Investing Activities	14,980,874	14,595,179
Cash Flows from Financing Activities:		
Net Increase in Deposits	(10,207,652)	2,841,680
Net Increase (Decrease) in Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	(2,750,000)	505,000
Proceeds from Issuance of Other Short-Term Borrowings	11,500,000	9,400,000
Repayment of Other Short-Term Borrowings	(11,500,000)	
Repayment of Long-Term Debt		(9,400,000)
Net Proceeds from Exercise of Options and Sale of Treasury Stock		5,280
Preferred Stock Dividends Paid	(170,000)	(190,399)
Net Cash from Financing Activities	(13,127,652)	3,161,361
Net Increase (Decrease) in Cash and Cash Equivalents	2,401,896	(11,292,375)
Cash and Cash Equivalents, January 1	34,648,387	50,450,022
Cash and Cash Equivalents, March 31	$ 37,050,283	$39,157,647

See Accompanying Notes to Consolidated Financial Statements.

EDGEMARK FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. The consolidated financial statements include the accounts of EdgeMark Financial Corporation and its subsidiaries ("the Corporation"). The financial statements have been prepared in conformity with generally accepted accounting principles and reporting practices. In the opinion of management, all adjustments (none of which were other than normal recurring adjustments) necessary for fair presentation of the financial position and the results of operations and cash flows for the interim periods have been made. The results of operations for the three months ended March 31, 1992 are not necessarily indicative of the result to be expected for the entire fiscal year. Prior year financial statements are reclassified to conform with any changes in current period financial statement presentation.

Certain information in footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission, although the Corporation believes the disclosures are adequate to make the information not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's 1991 Annual Report.

2. EdgeMark Financial Corporation, a Delaware corporation, is a multi-bank holding company, which operates Merchandise National Bank, Chicago, Illinois; Edgewood Bank, Countryside and Woodridge, Illinois; EdgeMark Bank Lombard, Lombard, Illinois; First National Bank of Lockport, Lockport, Illinois and EdgeMark Bank Rosemont, Rosemont, Illinois.

3. Net income per share amounts are computed by dividing net income, reduced by Preferred Stock dividends and discount accretion, by the weighted average number of common and common equivalent shares for each period presented. Common equivalent shares include dilutive Common Stock options.

4. Recorded income taxes represent effective rates of 20.24% and 16.59% for the three-month periods ended March 31, 1992 and 1991, respectively. The effective rates differ from the 34.00% statutory Federal income tax rates primarily due to investments in certain tax-exempt investments.

5. Payment of dividends by the Corporation is subject to various limitations by the Federal Reserve Board. The ability of the Corporation to declare or pay common dividends is also restricted by terms of the Corporation's $11,500,000 short-term note agreement (see note 6), in the event of default thereunder, and the Series A Preferred Stock dividend preference. At March 31, 1992, all of the Corporation's retained earnings were restricted.

6. On March 31, 1992, the $7,900,000 and the $3,600,000 short-term senior notes matured. This debt was renewed as one note for $11,500,000 and under substantially the same terms and conditions as the previous notes. The new short-term senior note will mature on March 31, 1993.

7. Effective April 1, 1991, the Corporation formed a mortgage brokerage division. The sole purpose of its operating activities is to generate loans and sell them in the secondary market. No results from this operation were recorded during the first quarter of 1991.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information about the financial condition of the Corporation at March 31, 1992 and the results of its operations for the three-month periods ended March 31, 1992 and 1991. This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements. Ratios for the interim periods are stated on an annualized basis and are not necessarily indicative of ratios which may be expected for the entire year.

ANALYSIS OF THE STATEMENTS OF EARNINGS

The following summarizes the components of net income as a percentage of average assets for the three-month periods ended March 31, 1992 and 1991:

	THREE MONTHS 1992	THREE MONTHS 1991
Net Interest Income	1.05%	0.99%
Provision for Loan Losses	(0.08)	(0.04)
Other Income	0.37	0.16
Other Expense	(1.08)	(0.96)
Income Before Income Taxes	0.26	0.15
Applicable Income Taxes	0.05	0.03
Net Income	0.21%	0.12%

Net Interest Income

Net interest income is defined as the difference between interest income plus fees on loans and interest expense on deposits and borrowed funds. Net interest income is the primary source of earnings and is dependent on the levels of and rates on average earning assets and interest-bearing liabilities. Net interest income during the first quarter of 1992 was $5,419,930 compared to $4,738,026 for the comparable period in 1991, for an increase of $681,904 or 14.39%. The increase was primarily attributable to a .25% increase in net interest margin in conjunction with an approximate $4,782,000 increase in net earning assets.

The net yield on average earning assets was 4.78% for the first quarter of 1992 and 4.53% for the comparable period in 1991. Yield improvement is a result of shifting certain assets along with newly acquired assets to investments with higher returns, coupled by the repricing of customer interest bearing deposit accounts.

Provision and Allowance for Loan Losses

The provision for loan losses during the first quarter in 1992 amounted to $387,750, compared to a provision of $190,501 in 1991. Net charge-offs for the first quarter totalled $281,678 compared to net charge-offs of $336,262 for the first quarter in 1991.

At March 31, 1992, the ratio of non-performing loans to net loans was 1.90% compared to 1.37% at December 31, 1991. The increase of .53% is primarily due to one loan to an insider for $1,250,000, which became past due 90 days as of March 31, 1992.

The allowance for loan losses at March 31, 1992 was $4,552,165 or 1.35% of net loans, compared with $4,446,093 or 1.35% of net loans at December 31, 1991. Management believes that the allowance at March 31, 1992 is adequate in relation to the present and potential credit risks in the loan portfolio.

Other Income

Other income, which includes service charges on deposit accounts, net security gains and other fees and charges, increased $1,082,541 or 136.23% in the first quarter of 1992 in comparison to other income in the first quarter of 1991.

Of this increase, $193,733 was the result of an increase in security gains. For the first quarter of 1992, gross realized gains were $283,412 and gross realized losses were $71,898. Additionally, other income increased due to the start-up of the mortgage brokerage division in 1991. During the first quarter of 1992, mortgage brokerage activities earned $759,265 in loan origination fees in conjunction with the generation of mortgage loans sold in the secondary market. No brokerage fees were earned during the first quarter of 1991.

Other Expense

Other expense includes the major categories of salaries and employee benefits, net occupancy expense, furniture and equipment expense, and other expenses associated with day-to-day operations. Other expense during the first quarter of 1992 increased $930,555 or 20.07% compared to the same period in 1991.

The overall increase is primarily due to the combination of increases in salary and employee benefits, insurance and other expenses. Salary and employee benefits increased approximately $599,000 or 29.33%, due mainly to normal merit raise increases, coupled with $503,000 in salaries associated with the mortgage brokerage division. Insurance expense increased approximately $83,535 or 34.27%, of which $64,500 pertains to the substantial rate assessment increase imposed by the Federal Deposit Insurance Corporation which became effective at the beginning of 1991. Other expense increased approximately $100,000 or 20.93%. Of this increase, approximately $165,500 was attributed to mortgage brokerage operating costs offset by a decrease in other miscellaneous expenses of $65,000, as continual efforts are being made to manage controllable expenses.

Income Taxes

Recorded income taxes of $271,503 in the first quarter of 1992 and $116,954 in the first quarter of 1991 represent effective tax rates of 20.24% and 16.59%, respectively.

The effective rates differ from the 34% statutory Federal income tax rates primarily due to investments in certain tax-exempt investment securities. In connection with the purchase of Merchandise National Bank of Chicago ("Merchandise"), the Corporation has available for Federal tax purposes a net operating loss carryforward and investment tax credits. This carryforward and tax credits are available to offset future taxable income attributable to Merchandise. For financial reporting purposes, any such benefit realized is treated as a reduction of the unamortized balance of cost in excess of the fair value of net assets acquired in the Merchandise acquisition. No such benefits were realized during the first quarter ended March 31, 1992 and 1991.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes", ("SFAS No. 96"), which adopts the liability method of comprehensive inter-period tax accounting and requires among other things, provision for deferred income taxes at the statutory rates (including the effects of giving consideration to alternative taxing systems) in effect for the period in which the taxes will become payable rather than at the rate in effect for the current period. Additionally, accumulated deferred taxes, recorded at historical rates on the balance sheet, must be adjusted for the expected taxes owed or refundable. The SFAS No. 96 was recently superseded by SFAS No. 109, "Accounting for Income Taxes", which provides for a more simplified calculation method and defers the effective date to fiscal years beginning after December 15, 1992. The Corporation's management is reviewing SFAS No. 109 and the proposed changes to determine the impact that the adoption will have on the financial statement. The Corporation expects to adopt the statement January 1, 1993. The impact of adoption is unknown at this time.

ANALYSIS OF THE BALANCE SHEET

Assets

Total assets at March 31, 1992 were approximately $505 million, a decrease of approximately $12 million or 2.26% compared to year-end 1991.

Investment securities decreased $22.1 million which was offset by a increase in cash and cash equivalents of $2.4 million from December 31, 1991 to March 31, 1992. Additionally, net loans increased $8.4 million and other assets grew modestly by approximately $.4 million when comparing balances at December 1991 with March 31, 1992. The majority of the investment securities decrease was caused by the decrease in liabilities, mainly in deposits. At March 31, 1992, investment securities had gross unrealized securities gains and losses of $2,025,791 and $780,935, respectively.

Liabilities

Total deposits decreased by $10.2 million from December 31, 1991 to March 31, 1992. Overall, non-interest bearing deposits remained stable, showing slight growth of $1.7 million, which was offset by a decrease of $1.6 million in savings, NOW and money market accounts. The majority of the deposit decrease was concentrated in interest-bearing time deposits. The decrease of $10.4 million was primarily due to time deposits originated through a special promotion in the later summer months of 1991, matured and were not renewed. The overall liability decrease also included a $2.8 million decline in federal funds sold and securities sold under agreement to repurchase. This decrease was caused by a repurchase agreement price restructuring decision made by management.

Interest Rate Sensitivity

Interest rate sensitivity is related to liquidity and addresses the individual bank's ability to reprice earning assets to correspond with changes in interest rates paid on deposits or other debt. The Corporation manages the repricing of earning assets relative to the pricing of supporting liabilities in the light of the interest rate outlook, within an acceptable level of risk, to enhance earning opportunities. The Corporation's six-month cumulative ratio of rate sensitive assets to rate sensitive liabilities at March 31, 1992, was approximately 94.95%. This particular ratio indicates that in a rising interest rate environment, there will be a slight negative impact on current earnings. The following table illustrates the Corporation's cumulative interest rate sensitivity structure:

(in thousands)

March 31, 1992	Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year
Total Rate Sensitive Assets	$150,258	$160,477	$184,442	$213,380
Total Rate Sensitive Liabilities	100,210	135,967	194,242	213,945
Cumulative Gap	50,048	24,510	(9,800)	(565)
Cumulative Ratio (%)	149.94%	118.03%	94.95%	99.74%

Liquidity

Liquidity management involves the ability to meet the funds flow requirements of customers. The Corporation's liquidity is maintained by the maturity structure of loans, investment securities, and cash and deposits with banks, as well as in Federal funds. The Corporation does not rely on brokered deposits as sources of liquidity.

At March 31, 1992, the Corporation's liquidity, as measured by Federal funds sold net of Federal funds purchased and repurchase agreements, cash and due from banks, and investment securities with maturities of one year or less, totalled approximately $63,291,529 or 14.17% of total deposits.

Capital

At March 31, 1992, Stockholders' Equity totalled $42,529,143, up $900,217 from December 31, 1991. The growth in equity reflects net income of $1,070,217 and the payment of $170,000 in Preferred Stock dividends.

The risk-based capital guidelines consider both balance sheet and off-balance sheet credit risk, while the capital leverage ratio is an ongoing tool to monitor capital in relation to total average assets.

The Corporation's Tier 1 and total risk-based capital ratios, as well as its capital leverage ratio, exceed the current regulatory minimums. In addition, the Corporation has achieved risk-based capital ratios that meet the more stringent risk-based capital guidelines to be imposed by the end of 1992. The Corporation intends to continue to build its capital resources in the coming year through internal capital generation and balance sheet management.

The following table represents various measures of capital at:

	March 31, 1992		December 31, 1991	
Risk-Based Capital:	AMOUNT	RATIO	AMOUNT	RATIO
Tier 1 Capital	$25,178,558	7.16%	$24,078,909	7.26%
Total Risk-Based Capital	29,730,722	8.46	28,415,457	8.57
Leverage	25,178,558	4.89	24,078,909	4.52

Tier 1 Capital - Stockholders' Equity minus the cost in excess of the fair value of net assets acquired divided by risk-adjusted assets as defined in the guidelines.

Total Risk-Based Capital - Tier 1 capital plus the allowance for loan losses and the equity commitment note divided by risk-adjusted assets.

Leverage - Tier 1 under the 1992 guideline to quarterly average assets.

Presently, the Corporation does not have any material commitments for capital expenditures.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Refer to Exhibit (11) at the end of the report.

(b) There were no reports on Form 8-K filed by the registrant during the quarter ending March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EDGEMARK FINANCIAL CORPORATION
(Registrant)

Date: May 12, 1992

By: ______________________
Charles A. Bruning
President and CEO
(DULY AUTHORIZED OFFICER)

Date: May 12, 1992

By: ______________________
Charles L. Lanzrath
Vice President-Controller

EXHIBIT (11)

EDGEMARK FINANCIAL CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS PER SHARE
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991

	1992	1991
Weighted Average Number of Common Shares Outstanding	1,448,939	1,448,939
Dilutive Effect of Stock Options	5,124	10,864
Weighted Average Common and Common Equivalent Shares Outstanding	1,454,063	1,459,803
Net Income Applicable to Common Stock	$876,288	$379,028
Earnings per Common and Common Equivalent Share	$0.60	$0.26

✓ This report consists of 19 Consecutively numbered pages including exhibits. Index to exhibits can be found at Consecutively numbered pages 17 and 18. 19 1

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to N/A

Commission File Number 0-4597

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FOREST OIL CORPORATION

(Exact name of registrant as specified in its ch

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New York	25-0484900
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 Colorado National Building
950 - 17th Street
Denver, Colorado 80202

(Address of principal executive offices) (Zip Code)

BEST COPY AVAILABLE

Registrant's telephone number, including area code: (303) 592-2400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No___

Title of Class of Common Stock		Number of Shares Outstanding April 30, 1992
Common Stock, Par Value $.10 Per Share		9,454,281
Class B Stock, Par Value $.10 Per Share		3,592,766
	Total	13,047,047

PART I. FINANCIAL INFORMATION

FOREST OIL CORPORATION

Condensed Consolidated Balance Sheets (Note 1)

	March 31, 1992 (Unaudited)	December 31, 1991
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,679	18,864
Accounts receivable	16,395	24,074
Other current assets	2,401	1,781
Total current assets	23,475	44,719
Property and equipment, at cost:		
Oil and gas properties - full cost accounting method	1,036,000	993,781
Buildings, transportation and other equipment	15,313	14,276
	1,051,313	1,008,057
Less accumulated depreciation, depletion and valuation allowance	773,371	764,375
Net property and equipment	277,942	243,682
Other assets	9,280	7,788
	$ 310,697	296,189
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	$ –	2,278
Current portion of production payment obligation	1,743	–
Accounts payable	15,305	23,568
Retirement benefits payable to executives and directors	296	296
Accrued expenses and other liabilities	6,082	5,748
Total current liabilities	23,426	31,890
Production payment obligation	26,868	–
Senior secured notes	59,400	59,262
Subordinated debentures	90,387	90,387
Other liabilities	8,539	7,932
Retirement benefits payable to executives and directors	5,109	5,356
Deferred revenue	43,343	40,199
Deferred Federal income taxes	4,456	6,323
Shareholders' equity:		
Convertible preferred stock	17,218	17,280
Capital stock	1,359	1,326
Capital surplus	147,782	149,069
Accumulated deficit	(108,254)	(103,741)
Foreign currency translation	1,198	2,476
Treasury stock	(10,134)	(11,570)
Total shareholders' equity	49,169	54,840
	$ 310,697	296,189

See accompanying notes to condensed consolidated financial statements.

3

FOREST OIL CORPORATION

Condensed Consolidated Statements of Production and Operations (Note 1)

(Unaudited)

	Three Months Ended	
	March 31, 1992	March 31, 1991
	(In Thousands Except Per Share Amounts)	
PRODUCTION		
Gas (mmcf)	6,815	6,228
Oil and condensate (thousand barrels)	328	196
STATEMENTS OF CONSOLIDATED OPERATIONS		
Revenue:		
Oil and gas sales:		
Gas	$ 11,195	13,925
Oil and condensate	5,614	4,976
Products and other	333	190
	17,142	19,091
Miscellaneous, net	152	2,056
Total revenue	17,294	21,147
Expenses:		
Oil and gas production	3,500	2,532
General and administrative	2,223	3,061
Restructuring	–	168
Interest	7,118	6,001
Provision for impairment of oil and gas properties	–	34,000
Depreciation and depletion	10,833	10,265
Total expenses	23,674	56,025
Loss before income taxes	(6,380)	(34,878)
Federal income tax expense (benefit):		
Current	–	32
Deferred	(1,867)	(11,892)
	(1,867)	(11,860)
Net loss before redeemable preferred stock dividend requirements	(4,513)	(23,018)
Redeemable preferred stock dividend requirements	–	(1,404)
Net loss attributable to common stock	$ (4,513)	(24,422)
Weighted average number of common shares outstanding	12,889	12,390
Primary and fully diluted loss per share	$ (.35)	(2.07)

See accompanying notes to condensed consolidated financial statements.

4

FOREST OIL CORPORATION
Condensed Consolidated Statement of Shareholders' Equity (Note 1)
(Unaudited)

	$.75 Convertible Preferred Stock	Common Stock	Class B Stock	Capital Surplus	Accumulated Deficit	Foreign Currency Translation	Treasury Stock
				(In Thousands)			
Balance December 31, 1991	$17,280	951	375	149,069	(103,741)	2,476	(11,570)
Net loss	-	-	-	-	(4,513)	-	-
Preferred stock dividends paid in common stock	-	29	-	(29)	-	-	-
Treasury stock contributed to the employee thrift plan and other	-	-	-	(1,316)	-	-	1,436
Conversions of $.75 preferred stock to common stock	(62)	4	-	58	-	-	-
Exchange of Class B to Common Stock	-	1	(1)	-	-	-	-
Foreign currency translation	-	-	-	-	-	(1,278)	-
Balance March 31, 1992	$17,218	985	374	147,782	(108,254)	1,198	(10,134)

See accompanying notes to condensed consolidated financial statements.

FOREST OIL CORPORATION

Condensed Consolidated Statements of Cash Flows (Note 1)

(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
	(In Thousands)	
Cash flows from operating activities:		
Net loss before Redeemable Preferred Stock dividend requirements	$ (4,513)	(23,018)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and depletion	10,833	10,265
Provision for impairment of oil and gas properties	-	34,000
Deferred Federal income tax benefit	(1,867)	(11,892)
Other, net	401	217
Net changes in current assets and liabilities:		
Decrease in accounts receivable	7,679	5,266
Increase in other current assets	(620)	(188)
Decrease in accounts payable	(8,263)	(6,820)
Increase (decrease) in accrued expenses and other liabilities	334	(2,205)
Net cash provided by operating activities	3,984	5,625
Cash flows from investing activities:		
Capital expenditures for property and equipment	(47,762)	(10,031)
Proceeds from sales of property and equipment	1,374	4,888
Increase in other assets, net	(1,628)	-
Net cash used by investing activities	(48,016)	(5,143)
Cash flows from financing activities:		
Borrowings of long-term bank debt	-	9,000
Repayments of long-term bank debt	-	(7,880)
Proceeds of production payment	28,805	-
Repayments of production payment	(194)	-
Proceeds of volumetric production payment	6,535	-
Amortization of volumetric production payments	(3,391)	-
Increase (decrease) in cash overdraft	(2,278)	1,791
Increase in other liabilities, net	360	416
Net cash provided by financing activities	29,837	3,327
Effect of exchange rate changes on cash	10	22
Net increase (decrease) in cash and cash equivalents	(14,185)	3,831
Cash and cash equivalents at beginning of the period	18,864	6,905
Cash and cash equivalents at end of the period	$ 4,679	10,736
Cash paid during the period for:		
Interest	$ 6,224	7,258
Income taxes	$ 33	75

See accompanying notes to condensed consolidated financial statements.

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FOREST OIL CORPORATION
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 1992 and 1991

(1) Basis of Presentation

The consolidated financial statements included herein are unaudited. In the opinion of management, all adjustments, consisting of normal recurring accruals, have been made which are necessary for a fair presentation of the financial position of the Company at March 31, 1992 and the results of operations for the three month periods ended March 31, 1992 and 1991. Quarterly results are not necessarily indicative of expected annual results because of the impact of fluctuations in prices received for natural gas and other factors. For a more complete understanding of the Company's operations and financial position, reference is made to the consolidated financial statements of the Company, and related notes thereto, filed with the Company's annual report on Form 10-K for the year ended December 31, 1991, previously filed with the Securities and Exchange Commission.

(2) Loss Per Share

Primary loss per share of common stock is determined by dividing net loss attributable to common stock, less dividends payable on convertible preferred stock, by the weighted average number of common shares outstanding during each period excluding treasury shares. Fully diluted loss per share is computed upon the assumption that all of the outstanding warrants are exercised, all of the convertible preferred stock and all of the convertible subordinated debentures are converted and the related dividends payable and interest expense, net of related Federal income taxes, is eliminated. The assumed exercises and conversions were anti-dilutive for the three months ended March 31, 1992 and 1991. For the three months ended March 31, 1991, loss per share was computed after giving effect to a stock dividend of 3% of the aggregate outstanding common stock paid on June 10, 1991 to shareholders of record on May 20, 1991.

(3) Litigation

On July 25, 1988, a jury awarded the Company approximately $50,000,000 in take-or-pay damages in litigation involving a natural gas purchase contract with ONEOK, Inc. ("ONEOK"). This case was filed by the Company on May 30, 1984 in the District Court for Caddo County, State of Oklahoma. The judgment was for damages incurred through April 1988. The Company received additional post-judgment awards for interest, legal fees and costs incurred. ONEOK has appealed this award to the Supreme Court of Oklahoma and has posted a $63,512,000 cash deposit with the State of Oklahoma as an appeal bond. ONEOK must post an additional $1,251,000 each calendar quarter until the Supreme Court decision is rendered. The Company also filed an appeal in the Oklahoma Supreme Court requesting the appellate court to increase the Company's $50,000,000 judgment by $24,500,000, representing damages that were not awarded at trial and pre-judgment interest.

On February 27, 1989, the Company filed a second suit against ONEOK, involving the same contract, in the District Court for Caddo County, Oklahoma, seeking take-or-pay and other damages for breach of the contract for the period May 1988 through the date of trial. In recent rulings, the trial court granted Forest summary judgment as to liability and therefore the only jury issue at trial will be the jury's determination of the amount of damages. The trial court also ruled that damages may not include certain production in excess of the contract quantity as determined by allowables, and must give credit for volumes of gas represented in the damages awarded for take-or-pay deficiencies in the case on appeal to the Oklahoma Supreme Court. The trial court reserved the issue of pre-judgment interest until after trial. Accordingly, the Company intends to allege damages at the trial which are substantially reduced from its previous estimate of $19,774,000, which included pre-judgment interest. Forest will determine whether to appeal the trial court's rulings concerning damages after the trial of the case. The Company expects the case to be set for trial in 1992.

No prediction can be given as to when or how these matters will ultimately be concluded. No assurance can be made that the Company will ultimately receive any funds from this litigation despite the jury verdict currently on appeal to the Supreme Court. No amounts have been recorded on the Company's financial statements with respect to this litigation.

(3) Litigation, continued

In 1991, the Company reached a settlement with the Minerals Management Service (MMS) with respect to certain royalty claims, pursuant to which the Company paid $2,700,000 to the MMS on November 1, 1991. The Company believes that its share of the settlement is not significant. Reimbursement has been received from certain of the Company's co-owners for their share of the settlement, and reimbursement is being sought from the remaining co-owners for their share of the settlement.

(4) Harbert Energy Acquisition

On February 1, 1992, Forest I Development Company, a wholly-owned subsidiary of the Company, acquired substantially all of the assets of Harbert Energy Corporation and its associated entities for approximately $40,400,000, including the assumption of certain liabilities, in an acquisition accounted for as a purchase. The acquisition was financed in part by a dollar-denominated production payment.

Under the terms of the production payment, Forest I Development Company makes a monthly cash payment which is the greater of a scheduled amount or 85% of the net proceeds from the subject properties, as defined. The production payment of $37,550,000 was recorded as a liability of $28,800,000 after a discount to reflect a market rate of interest.

The producing properties acquired have estimated proved reserves of approximately 4.3 MBBLS of oil and 18.6 BCF of natural gas and are located principally offshore Louisiana and in Oklahoma and Texas. Properties to which approximately 95% of the reserves acquired are attributable, on an equivalent basis, are pledged under the production payment through July 1999.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements and Notes thereto.

Results of Operations

The net loss attributable to common stock for the first three months of 1992 was $4,513,000 or $.35 per share compared to a net loss of $24,422,000 or $2.07 per share for the first three months of 1991. The loss in 1992 decreased primarily because the 1991 period included a writedown of the carrying value of oil and gas reserves of $22,400,000 on an after-tax basis, or $1.81 per share.

Revenue

The Company's oil and gas sales decreased by 10% to $17,142,000 in the first quarter of 1992 from $19,091,000 in the first quarter of 1991. Production levels for the 1992 period increased over 1991 by 9% for natural gas and 67% for oil due to property acquisitions (primarily the acquisition of the Harbert Energy interests which was effective February 1, 1992), however, decreases of 27% in the weighted average price received for natural gas and 33% in the weighted average price received for oil combined to produce the lower revenue results.

The production volumes and weighted average sales prices during the periods were as follows:

	Three Months Ended	
	March 31, 1992	March 31, 1991
Natural Gas		
Production (MMCF)	6,815	6,228
Sales price received (per MCF)	$1.55	2.05(A)
Effects of energy swaps (per MCF)	.09	-
Average sales price (per MCF)	$1.64	2.05
Oil and Condensate		
Production (thousands of barrels)	328	196
Sales price received (per barrel)	$16.72	22.33
Effects of energy swaps (per barrel)	.40	3.02
Average sales price (per barrel)	$17.12	25.35

(A) The 1991 amounts exclude a price adjustment of $.19 per MCF attributable to a favorable ruling by a Texas court with respect to royalties on take-or-pay settlements. Including such adjustment the weighted average sales price for natural gas was $2.24 per MCF.

Miscellaneous net income decreased to $152,000 in the first quarter of 1992 from $2,058,000 in the comparable 1991 quarter. The 1991 period included $1,782,000 of revenue associated with a favorable ruling by a Texas court with respect to severance tax on take-or-pay settlements.

Expenses

Oil and gas production expense increased 38% to $3,500,000 in the first quarter of 1992 from $2,532,000 in the comparable period of 1991. The increase follows the increase in production levels of oil and natural gas, but is also attributable to workovers performed in 1992. On an MCFE basis, production expense increased 18% in the first quarter of 1992 to $.40 per MCFE from $.34 per MCFE in the first quarter of 1991.

General and administrative expense decreased 27% to $2,223,000 in the first three months of 1992 from $3,061,000 in the first three months of 1991, reflecting the continuing effects of the Company's reorganization and consolidation programs. Total overhead costs (capitalized and expensed general and administrative costs) decreased 39% to $4,337,000 in the first quarter of 1992 from $7,127,000 in the first quarter of 1991, reflecting reductions in workforce which occurred in April 1991 and the consolidation of the Company's operations and technical staff which commenced in December 1991. The Company's salaried workforce, which numbered 229 at January 1, 1991, was reduced to 162 at April 30, 1991 and totaled 130 at April 30, 1992.

Total overhead incurred for the respective periods, was as follows:

	Three Months Ended	
	March 31, 1992	March 31, 1991
	(In Thousands)	
Overhead costs capitalized	$2,114	4,066
General and administrative costs expensed	2,223	3,061
Total overhead costs	$4,337	7,127

Interest expense increased approximately 19% to $7,118,000 in the first quarter of 1992 from $6,001,000 in the corresponding period of 1991. The increase is attributable to the interest expense of the production payment entered into in connection with the acquisition of the Harbert Energy properties.

During the first quarter of 1992, the Company was not required to record a writedown of the carrying value of its oil and gas properties. During the first quarter of 1991, the Company recorded a writedown of its oil and gas properties of $34,000,000. The 1991 writedown was due to the poor results of the Company's 1990 exploration program and continued depressed natural gas prices. Subsequent to the end of the first quarter of 1992, the prices of oil and natural gas increased. Consequently, the Company utilized May 1992 prices in its ceiling test calculation, resulting in a ceiling limitation which exceeded the carrying value of the Company's oil and gas properties. A writedown of the Company's properties would have been required if prices in effect at the end of the quarter had been used in the ceiling test calculation.

Additional writedowns of the full cost pools may be required if prices decrease, estimated proved reserve volumes are revised downward or costs incurred in exploration, development, or acquisitions exceed the discounted future net cash flows from the additional reserves, if any.

Depreciation and depletion expense increased by approximately 6% to $10,833,000 in the first quarter of 1992 from $10,265,000 in the comparable period of 1991. Production increased significantly in the 1992 period as a result of the acquisition of properties. The increased expense relating to such increased production was offset by a decreased per-unit rate. The decreased rate was due to the writedown taken in the first quarter of 1991, and acquisitions after the first quarter of 1991 which were made at costs which were less than the Company's historical finding costs. These factors combined to reduce the depreciation and depletion rate to $1.23 per MCFE in the 1992 period compared to $1.39 per MCFE in the prior year period.

Capital Resources and Liquidity

Capital Expenditures

In April 1991, the Company began implementation of its capital investment strategy of acquisition of proved properties. The most significant acquisition under this strategy was the purchase of substantially all of the assets of Harbert Energy Corporation effective February 1, 1992 for approximately $40,400,000, including the assumption of certain liabilities. The Company's expenditures for property acquisition, exploration and development for the first quarter of 1992 and the first quarter of 1991, including overhead related to these activities which was capitalized, were as follows:

	First quarter 1992	First quarter 1991
Property acquisition costs:		
Proved properties	$41,410	$ -
Undeveloped properties	3,306	-
	44,716	-
Exploration costs:		
Direct costs	366	1,419
Overhead capitalized	198	2,610
	564	4,028
Development costs:		
Direct costs	(512)	3,819
Overhead capitalized	1,916	1,456
	1,404	5,275
	$46,684	$9,304

It is currently anticipated that the Company's expenditures for exploration in 1992 will be approximately $2,000,000 (comprised primarily of delay rentals and capitalized overhead) and the Company's expenditures for development will be approximately $21,000,000, including capitalized overhead of $6,000,000. Planned expenditures for development include an 11 well workover project at the Eugene Island 273-A Unit at an estimated cost of approximately $5,000,000, net to the Company's interest. These levels of capital expenditures may be restricted if the Company experiences lower than anticipated net cash provided by operations or is unable to obtain working capital from other sources. Additional acquisitions in 1992 will depend upon the availability of external sources of capital, such as production payments and other non-recourse financing. Availability of these sources of capital will depend upon a number of factors, some of which are beyond the control of the Company.

Cash Flow

Historically, one of the Company's primary sources of capital has been net cash provided by operating activities which has varied dramatically in recent years. The majority of the increases and decreases in net cash provided by operating activities is attributable to increases and decreases in oil and gas revenue. While expenses associated with operations have been relatively stable, revenue from operations has varied dramatically each year depending upon factors such as natural gas contract settlements and price fluctuations, which are difficult to predict.

Prices received for natural gas sold on the spot market are volatile due primarily to seasonality of demand and other factors beyond the Company's control. Domestic oil prices generally follow worldwide oil prices which are subject to price fluctuations resulting from changes in world supply and demand. The Gulf Coast spot price received by the Company for natural gas has decreased from $2.01 per MCF at December 31, 1991 to $1.39 and $1.62 per MCF at April 1, 1992 and May 1, 1992, respectively. The West Texas Intermediate price for crude oil has increased from $17.75 per barrel at December 31, 1991 to $18.50 and $19.50 per barrel at April 1, 1992 and May 1, 1992, respectively. While the price the Company receives for its oil and natural gas production has significant financial impact on the Company, no prediction can be made as to what price the Company will receive for its oil and natural gas production in the future.

In order to attempt to minimize the price volatility to which the Company is subject, the Company has, in the past, entered into energy swap agreements with third parties to hedge against the effect of fluctuations in future oil prices. In a typical swap agreement, the Company receives or pays the difference between a fixed price per unit of production and an agreed upon price based on a third party index. The Company estimates that approximately 31% of its oil production will not be subject to price fluctuations for the year 1992 as a result of energy swaps. In October, 1991 the Company entered into an energy swap agreement for 20,000 barrels per month of the Company's anticipated oil production for the period

January 1, 1992 to December 31, 1992. This agreement has a fixed price of $21.15 per barrel of oil. In March 1992, the Company entered into two additional agreements. Under a swap agreement, 20,000 barrels per month was hedged from April 1992 through December 1993 at $19.70 per barrel. Under a related agreement with the same party, an additional 20,000 barrels per month was committed to an arrangement where the Company is obligated to pay the excess, if any, of an agreed-upon index over $20.00 per barrel for the same period of time.

In March 1992, the Company entered into an energy swap agreement for approximately 20% of its anticipated natural gas production for the period May 1, 1992 to September 30, 1992. The agreement has an average fixed price of $1.31 per MMBTU and will utilize an index for offshore prices included in the Inside F.E.R.C. Gas Market Report. As a result of this energy swap, volumetric production payments and gas sold under other long-term contracts, the Company estimates that about 60% of its natural gas production will not be subject to price fluctuations from May 1992 through September 1992. Subsequent to October 1, 1992, the Company estimates that the percentage of its natural gas production which is subject to price fluctuations will increase significantly unless further hedging agreements are transacted.

Financing Activities

While the Company's 1991 Recapitalization was successful in reducing annual cash interest and dividend requirements, the Company still may not have adequate long-term liquidity to replace its depleting asset base of oil and gas reserves or to fund its obligations under existing debentures and notes. If the Company were to pursue a strategy limited to developing and producing only its existing proved reserves, it could continue to experience long-term liquidity problems. Therefore, the Company will continue to pursue its acquisition strategy in 1992 when cost-effective opportunities arise. The Company continues to study alternatives to reduce its long-term debt. Depending upon market conditions, the Company may pursue additional exchange offers or purchases of its subordinated debt with equity securities or cash. Such transactions may involve consent solicitations for relief from subordinated debt covenants.

A dollar-denominated production payment was sold in connection with the acquisition of the Harbert Energy properties. The amount of the production payment was $37,550,000, which was recorded as a liability of $28,800,000 after a discount to reflect a market rate of interest. Under the terms of this production payment, the Company must make a monthly cash payment which is the greater of a scheduled amount or 85% of the net proceeds from the subject properties, as defined.

The Company has traditionally used its oil and gas reserve base as security for bank financing. As an alternative to bank financing, the Company has entered into production payment transactions. The Company currently has no bank credit facility in place. In order to improve short-term liquidity,, the Company has been pursuing several alternatives. The Company has had discussions with prospective lenders to use both its United States and Canadian properties as security for working capital borrowings. The terms of Company's 12 3/4% Senior Secured Notes permit the Company to secure up to $10,000,000 of working capital loans with the assets which secure the 12 3/4% Senior Secured Notes. In addition, the Company's Canadian oil and gas properties are not subject to the liens securing the 12 3/4% Senior Secured Notes and are available to be used as collateral for bank financing. The Company is reviewing other alternatives relating to its Canadian assets, including joint venture development or disposition of the assets. The Company presently intends to use the proceeds of any working capital borrowings or any sales of assets either to acquire proven oil and gas reserves or to repurchase subordinated debentures.

Other Matters

Gas Balancing

It is customary in the industry for various working interest partners to overproduce their share of natural gas from time to time. The Company had accumulated a net overproduced balance at December 31, 1991. In the first quarter of 1992, the Company reduced its net overproduced position by approximately 9% as a result of purchases of partners' interests in overproduced properties and an imbalance settlement. The Company is currently examining various alternatives with respect to its gas balancing position. Settlement of gas balancing accounts could result in cash payments, property exchanges or other forms of payment. The Company is unable to determine when its partners may choose to make up their share of production. When the Company's partners do choose to make up their share of production, the Company's deliverable natural gas volumes could decrease, adversely affecting gas revenue.

Litigation

As discussed in Note 3 of Notes to Condensed Consolidated Financial Statements, the Company has obtained a judgment for approximately $50,000,000 in damages involving the breach of a gas purchase contract by ONEOK. The judgment has been appealed. In 1989 the Company filed a second suit against ONEOK, involving the same contract seeking take-or-pay and other damages for breach of the contract for the period May 1988 through the date of trial. The Company expects the case to be set for trial in 1992.

Net Operating Loss and Tax Credit Carryforwards

At December 31, 1991, the Company estimated that for United States federal income tax purposes, it had consolidated net operating loss carryforwards of $18,243,000 and investment tax credit carryforwards of approximately $4,355,000. The availability of these tax attributes to reduce current and future taxable income of the Company is subject to various limitations under the Internal Revenue Code. In particular, the Company's ability to utilize such tax attributes could be severely restricted due to the occurrence of an "ownership change" within the meaning of Section 382 of the Internal Revenue Code resulting from the Recapitalization. At December 31, 1991, the Company estimated that net operating loss and investment tax credit carryforwards would be limited to offset current taxable income to the extent described below.

Even though the Company is limited in its ability to use net operating loss carryovers under the general provisions of Section 382, it may be entitled to use its net operating loss carryovers to offset (a) gains recognized in the five years following the ownership change on the disposition of certain assets, to the extent that the value of the assets disposed of exceeds its tax basis on the date of the ownership change or (b) any item of income which is properly taken into account in the five years following the ownership change but which is attributable to periods before the ownership change ("built-in gain"). The ability of the Company to use net operating loss carryovers to offset built-in gain first requires that the Company have total built-in gains at the time of the ownership change which are greater than a threshold amount. In addition, the use of the net operating loss carryforwards to offset built -in gain cannot exceed the amount of the total built-in gain.

The Company believes that due to the amount of built-in gain as of the date of ownership change, and the anticipated timing of the recognition of such gain, that there will be no significant limitation on the Company's ability to use net operating loss carryforwards or investment tax credit carryforwards.

Accounting Policies

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS No. 109). This statement requires the Company to adopt the liability method of accounting for income taxes effective for fiscal years beginning after December 15, 1992. The Company does not know and cannot reasonably estimate the impact of SFAS No. 109 on its financial statements.

Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (SFAS No. 106) has also been issued. This statement requires the Company to accrue expected costs of providing postretirement benefits to employees and the employees' beneficiaries and covered dependents and is effective for fiscal years beginning after December 15, 1992. The Company will adopt the provisions of SFAS No. 106 as required. The effect of adopting SFAS No. 106 has not yet been actuarially evaluated.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting held on May 13, 1992, shareholders of the Company (a) approved the Company's 1992 Stock Option Plan, and (b) approved an amendment to its Restated Certificate of Incorporation to delete the provisions relating to the Company's $15.75 Redeemable Preferred Stock and $2.125 Convertible Preferred Stock, shares of which were no longer outstanding. In addition, the Company's shareholders elected three Class II Directors and ratified the appointment of KPMG Peat Marwick as independent auditors for the Company for 1992.

A total of 34,688,204 Common and Class B votes was cast in favor of approving the 1992 Stock Option Plan. A total of 5,345,290 Common and Class B votes was cast against such approval.

A total of 39,274,877 Common and Class B votes was cast in favor of the amendment to the Restated Certificate of Incorporation. A total of 167,645 Common and Class B votes was cast against the amendment.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 4.1 Restated Certificate of Incorporation of Forest Oil Corporation dated May 3, 1978 and Amendment thereto dated May 2, 1979, incorporated herein by reference to Exhibit 3.1 to Registration Statement 2-69044.

Exhibit 4.2 Certificate of Amendment of Certificate of Incorporation of Forest Oil Corporation dated May 6, 1981, incorporated herein by reference to Exhibit 3.2 to Registration Statement 2-71024.

Exhibit 4.3 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of April 18, 1985, incorporated herein by reference to Exhibit 4.4 to Registration Statement 2-96649.

Exhibit 4.4 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of December 23, 1985, incorporated herein by reference to Exhibit 4.4 to Registration Statement 33-2748.

Exhibit 4.5 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of May 14, 1986, incorporated herein by reference to Exhibit 4.5 to Post-Effective Amendment No. 1 to Registration Statement 33-2748.

Exhibit 4.6 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of May 18, 1988, incorporated herein by reference to Exhibit 4.6 to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1988.

Exhibit 4.7 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of February 9, 1990, incorporated herein by reference to Exhibit 4.9 to Registration Statement 33-32589.

Exhibit 4.8 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of September 9, 1991, incorporated herein by reference to Exhibit 3.10 to Registration Statement No. 33-43292.

Exhibit 4.9 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of December 4, 1991, incorporated herein by reference to Exhibit 3.9 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Exhibit 4.10 Restated By-Laws of Forest Oil Corporation as of May 9, 1990, Amendment No. 1 to By-Laws dated as of April 2, 1991, Amendment No. 2 to By-Laws dated as of May 8, 1991 and Amendment No. 3 to By-Laws dated July 30, 1991, incorporated herein by reference to Exhibit 3.8 to Registration Statement 33-40376.

Exhibit 4.11 Indenture dated as of May 1, 1979 between Forest Oil Corporation and The Chase Manhattan Bank (National Association), incorporated herein by reference to Exhibit 2.1 to Registration Statement 2-64265.

Exhibit 4.12 Indenture dated as of June 1, 1980 between Forest Oil Corporation and The Chase Manhattan Bank (National Association), incorporated herein by reference to Exhibit 2.1 to Registration Statement 2-67851.

Exhibit 4.13 Indenture dated as of September 27, 1988 between Forest Oil Corporation and First Interstate Bank of Denver, N.A., incorporated herein by reference to Exhibit 4.1 to Registration Statement 33-24226.

Exhibit 4.14 Indenture dated as of December 3, 1991 between Forest Oil Corporation and The Connecticut National Bank, as Trustee, incorporated herein by reference to Exhibit 4.4 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Exhibit 4.15 Pledged Assets Agency Agreement dated as of December 3, 1991 between The Connecticut National Bank, as Pledged Assets Agent and Forest Oil Corporation, incorporated herein by reference to Exhibit 4.5 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Exhibit 4.16 Mortgage, Deed of Trust, Assignment of Production, Security Agreement and Financing Statement dated as of December 3, 1991 from Forest Oil Corporation to The Connecticut National Bank, as Pledged Assets Agent, on behalf of The Connecticut National Bank, as Trustee for the 12-3/4% Senior Secured Notes due 1998 and as mortgagee under the mortgage, trustee under the deed of trust, assignee under the assignment of production and secured party under the security agreement, incorporated herein by reference to Exhibit 4.6 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Exhibit 4.17 Warrant Agreement dated as of December 3, 1991 between Forest Oil Corporation and The Chase Manhattan Bank (National Association), as Warrant Agent (including Form of Warrant), incorporated herein by reference to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

No other instruments regarding long-term debt are filed because the amount of the securities authorized thereunder do not, in any case, exceed 10% of the total assets of Forest Oil Corporation on a consolidated basis, but a copy of such instruments will be furnished to the Commission upon request.

*Exhibit 11 Forest Oil Corporation and Consolidated Subsidiaries - Calculation of Earnings (Loss) per Share of Common Stock.

*Filed with this report.

(b) Reports on Form 8-K

The following report on Form 8-K was filed by Forest during the first quarter of 1992:

Date of Report	Item Reported	Financial Statements Filed
February 1, 1992	Item 2	(a) Consolidated Financial Statements of Harbert Energy Corporation for the eleven month period ended December 31, 1990 and for the fiscal year ended January 31, 1990. Condensed Consolidated Financial Statements of Harbert Energy Corporation at September 30, 1991 and for the nine month periods ended September 30, 1991 and October 31, 1990. (b) Condensed Pro Forma Combined Financial Statements of Forest Oil Corporation at September 30, 1991 and for the nine months then ended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FOREST OIL CORPORATION
(Registrant)

Date: May 13, 1992

Robert S. Boswell
Vice President and Chief
Financial Officer
(Signed on behalf of the registrant)

Robert S. Boswell
Vice President and Chief
Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Page No.

Exhibit 4.1 Restated Certificate of Incorporation of Forest Oil Corporation dated May 3, 1978 and Amendment thereto dated May 2, 1979, incorporated herein by reference to Exhibit 3.1 to Registration Statement 2-69044.

Exhibit 4.2 Certificate of Amendment of Certificate of Incorporation of Forest Oil Corporation dated May 6, 1981, incorporated herein by reference to Exhibit 3.2 to Registration Statement 2-71024.

Exhibit 4.3 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of April 18, 1985, incorporated herein by reference to Exhibit 4.4 to Registration Statement 2-96649.

Exhibit 4.4 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of December 23, 1985, incorporated herein by reference to Exhibit 4.4 to Registration Statement 33-2748.

Exhibit 4.5 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of May 14, 1986, incorporated herein by reference to Exhibit 4.5 to Post-Effective Amendment No. 1 to Registration Statement 33-2748.

Exhibit 4.6 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of May 18, 1988, incorporated herein by reference to Exhibit 4.6 to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1988.

Exhibit 4.7 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of February 9, 1990, incorporated herein by reference to Exhibit 4.9 to Registration Statement 33-32589.

Exhibit 4.8 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of September 9, 1991, incorporated herein by reference to Exhibit 3.10 to Registration Statement No. 33-43292.

Exhibit 4.9 Certificate of Amendment of the Restated Certificate of Incorporation of Forest Oil Corporation dated as of December 4, 1991, incorporated herein by reference to Exhibit 3.9 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Exhibit 4.10 Restated By-Laws of Forest Oil Corporation as of May 9, 1990, Amendment No. 1 to By-Laws dated as of April 2, 1991, Amendment No. 2 to By-Laws dated as of May 8, 1991 and Amendment No. 3 to By-Laws dated July 30, 1991, incorporated herein by reference to Exhibit 3.8 to Registration Statement 33-40376.

Exhibit 4.11 Indenture dated as of May 1, 1979 between Forest Oil Corporation and The Chase Manhattan Bank (National Association), incorporated herein by reference to Exhibit 2.1 to Registration Statement 2-64265.

Exhibit 4.12 Indenture dated as of June 1, 1980 between Forest Oil Corporation and The Chase Manhattan Bank (National Association), incorporated herein by reference to Exhibit 2.1 to Registration Statement 2-67851.

Exhibit 4.13 Indenture dated as of September 27, 1988 between Forest Oil Corporation and First Interstate Bank of Denver, N.A., incorporated herein by reference to Exhibit 4.1 to Registration Statement 33-24228.

Exhibit 4.14 Indenture dated as of December 3, 1991 between Forest Oil Corporation and The Connecticut National Bank, as Trustee, incorporated herein by reference to Exhibit 4.4 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Exhibit 4.15 Pledged Assets Agency Agreement dated as of December 3, 1991 between The Connecticut National Bank, as Pledged Assets Agent and Forest Oil Corporation, incorporated herein by reference to Exhibit 4.5 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Page No.

Exhibit 4.16 Mortgage, Deed of Trust, Assignment of Production, Security Agreement and Financing Statement dated as of December 3, 1991 from Forest Oil Corporation to The Connecticut National Bank, as Pledged Assets Agent, on behalf of The Connecticut National Bank, as Trustee for the 12-3/4% Senior Secured Notes due 1998 and as mortgagee under the mortgage, trustee under the deed of trust, assignee under the assignment of production and secured party under the security agreement, incorporated herein by reference to Exhibit 4.6 to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

Exhibit 4.17 Warrant Agreement dated as of December 3, 1991 between Forest Oil Corporation and The Chase Manhattan Bank (National Association), as Warrant Agent (including Form of Warrant), incorporated herein by reference to Form 10-K for Forest Oil Corporation for the year ended December 31, 1991.

No other instruments regarding long-term debt are filed because the amount of the securities authorized thereunder do not, in any case, exceed 10% of the total assets of Forest Oil Corporation on a consolidated basis, but a copy of such instruments will be furnished to the Commission upon request.

*Exhibit 11 Forest Oil Corporation and Consolidated Subsidiaries - Calculation of Earnings (Loss) per Share of Common Stock. 19

*Filed with this report.

Exhibit 11

FOREST OIL CORPORATION
Calculation of Loss Per Share of Common Stock
(Unaudited)

	Three Months Ended	
	March 31, 1992	March 31, 1991
	(In Thousands Except Per Share Amounts)	
Primary loss per share:		
Net loss attributable to common stock	$ (4,513)	(24,422)
Less dividends payable on Convertible Preferred Stock	–	1,222
Net loss attributable to common stock for primary loss per share calculation	$ (4,513)	(25,644)
Weighted average number of common shares outstanding	12,889	12,390
Primary loss per share	$ (0.35)	(2.07)
Fully diluted loss per share:		
Net loss attributable to common stock, as above	$ (4,513)	(24,422)
Add:		
Interest expensed on 5-1/2% Convertible Subordinated Debentures	119	128
Expenses related to the 5-1/2% Convertible Subordinated Debentures	8	5
Less:		
Additional Federal income taxes	43	45
Loss applicable to fully diluted calculation	$ (4,429)	(24,334)
Common shares applicable to fully diluted calculation:		
Weighted average number of common shares outstanding, as above	12,889	12,390
Add:		
Weighted average number of shares issuable upon assumed conversion of 5-1/2% Convertible Subordinated Debentures	526	526
Weighted average number of shares issuable upon assumed conversion of Convertible Preferred Stock	15,341	4,338
Common shares applicable to fully diluted calculation	28,756	17,254
Fully diluted loss per share	$ (0.15)	(1.41)

*The fully diluted loss per share calculation is antidilutive.

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SECURITIES AND EXCHANGE COMMISSION
Washington. D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) of the Securities Exchange Act of 1934

15 1992

For the Quarterly Period Ended:
March 31, 1992

Commission File No. 0-8924

HABERSHAM ENERGY COMPANY
(Exact name of registrant as specified in its charter)

Oklahoma	**73-0981865**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3650 Habersham Road, NW
Suite 101
Atlanta, Georgia 30305

(Address of principal executive offices) (Zip Code)

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Registrant's telephone number, including area code: (404) 231-9[illegible]

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date:

Title of Class	Shares Outstanding	As of Close of Business on
Common Stock, $.10 Par Value	4,363,488	May 13, 1992

Sequential page 1 of 11.

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HABERSHAM ENERGY COMPANY

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March 31, 1992

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PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

[illegible] ENERGY COMPANY

CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (unaudited)	September 30, 1991
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 348,093	$ 369,903
Accounts receivable - net	299,892	358,998
Receivables, primarily related party	2,855	49,408
Prepaid and other assets	20,385	39,441
Total current assets	671,225	817,750
OIL AND GAS PROPERTIES, at cost under the full-cost method:	12,809,167	12,531,879
Less accumulated amortization	(6,028,573)	(5,614,630)
	6,780,594	6,917,249
BUILDING AND EQUIPMENT, at cost	443,898	437,151
Less accumulated depreciation	(204,185)	(183,665)
	239,713	253,486
RESTRICTED CASH	100,000	100,000
OTHER ASSETS	20,300	73,703
TOTAL ASSETS	$ 7,811,832	$ 8,162,188
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 2,250	$ 10,132
Trade accounts payable	137,066	353,925
Payable to oil & gas interest owners	185,186	148,084
Ad valorem taxes	197,967	192,321
Accrued liabilities	95,844	162,358
Total current liabilities	618,313	866,820
LONG-TERM LIABILITIES:		
Long-Term debt, net of current portion	1,516,577	1,299,577
Ad valorem taxes	105,179	161,577
Other	43,832	43,832
Total long-term liabilities	1,665,588	1,504,986
STOCKHOLDERS' EQUITY:		
Common stock, $.10 par value; 20,000,000 shares authorized, 4,363,488 and 4,359,333 shares issued and outstanding in 1992 and 1991, respectively	436,349	435,933
Additional paid-in capital	7,774,622	7,769,637
Accumulated deficit	(2,683,040)	(2,415,188)
Total stockholders' equity	5,527,931	5,790,382
TOTAL LIABILITIES & STOCKHOLDERS'EQUITY	$ 7,811,832	$ 8,162,188

See accompanying notes to consolidated financial statements.

HABERSHAM ENERGY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	1992	1991	1992	1991
REVENUES:				
Oil and gas sales	$ 463,045	$ 436,763	$ 947,044	$ 982,416
Well operation fees	16,135	8,716	30,268	23,411
Other income	20,365	19,807	29,238	36,670
Total revenues	499,545	465,286	1,006,550	1,042,497
EXPENSES:				
Production expense & taxes	176,403	93,021	370,072	300,796
Depreciation and amortization	233,719	207,571	434,463	399,076
General and administrative	135,539	132,878	273,131	296,055
Interest	30,302	13,574	62,043	27,303
Abandoned merger costs (Note 3)	2,720	0	98,968	0
Title settlement (Note 4)	0	0	35,725	0
Total expenses	578,683	447,044	1,274,402	1,023,230
NET (LOSS) INCOME	$ (79,138)	$ 18,242	$ (267,852)	$ 19,267
NET (LOSS) INCOME PER COMMON SHARE	$ (.02)	$ *	$ (.06)	$ *
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	4,363,488	4,328,277	4,361,410	4,328,277

* Less than $.01 per share

See accompanying notes to consolidated financial statements.

HABERSHAM ENERGY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended March 31,	
	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(267,852)	$ 19,267
Plus adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	434,463	399,076
Write-off of deferred charges	96,248	-
Issuance of common stock for services	5,401	-
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	43,591	92,058
Other receivables	46,553	-
Prepaid and other assets	(23,789)	(2,049)
Increase (Decrease) in:		
Trade accounts payable	(216,859)	88,337
Payable to oil and gas interest owners	37,102	39,618
Ad valorem taxes	(50,752)	(70,638)
Accrued liabilities	(66,514)	(34,967)
Net cash provided by operating activities	$ 37,592	$ 530,702
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of oil & gas properties	23,963	25,785
Purchases & additions of oil & gas properties	(285,736)	(835,371)
Purchases of other property & equipment	(6,747)	(20,925)
Maturity of restricted certificate of deposit	0	5,000
Net cash used in investing activities	(268,520)	(825,511)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	257,000	-
Principal payments of long-term debt	(47,882)	(8,680)
Net cash provided by (used in) financing activities	209,118	(8,680)
DECREASE IN UNRESTRICTED CASH	(21,810)	(303,489)
UNRESTRICTED CASH, beginning of period	$ 369,903	$ 949,786
UNRESTRICTED CASH, end of period	$ 348,093	$ 646,297
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 63,142	$ 26,502
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Reduction in trade receivable due to acquisition of oil and gas properties	$ 15,515	$ -

See accompanying notes to consolidated financial statements.

HABERSHAM ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL:

Management has elected to omit substantially all notes to the consolidated unaudited interim financial statements. Reference should be made to the Company's annual report on Form 10-K for the year ended September 30, 1991, as this report incorporates the notes to the Company's year-end financial statements.

2. UNAUDITED INTERIM INFORMATION:

The unaudited interim financial statements contain all necessary adjustments (consisting of only normal recurring adjustments), which, in the opinion of management, are necessary for a fair presentation of the results for interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those expected for the year.

3. ABANDONED MERGER COSTS:

In August 1991, the Company entered into a non-binding agreement in principal with respect to a proposed business combination between the Company and a Houston based oil and gas company. The agreement in principal outlined the procedures necessary to negotiate and execute a definitive merger agreement between the two companies. The Company immediately commenced due diligence procedures and engaged various professionals to draft the definitive merger agreement. These direct costs were deferred as incurred, as it was expected the transaction would have been accounted for under the purchase method of accounting.

In January 1992, the Company terminated exclusive negotiations as permitted by the agreement in principal. The Company determined that the merger was unlikely and wrote-off $96,248 of related deferred costs during the three months ended December 31, 1991. The Company incurred additional costs of $2,720 during the three months ended March 31, 1992. These costs were expended as incurred.

4. TITLE SETTLEMENT:

In January 1992, the Company reached a preliminary settlement of a title dispute that existed between the Company's predecessor, U.S. Mineral & Royalty Corporation, and various working interest owners on two Wyoming properties. In connection with the settlement, the Company has agreed to pay the working interest owners approximately $100,000 for suspended revenue, accrued interest and professional fees. As a result, the Company accrued $35,725 during the quarter ended December 31, 1991 to fully provide for the Company's estimated legal costs and settlement mentioned above. As of March 31, 1992, the Company continues to work towards documenting a final settlement agreement and has borrowed $85,000 under its line-of-credit to established a cash reserve to fund the final settlement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Results of operations for the quarter ended March 31, 1992 compared to the quarter ended March 31, 1991.

For the quarter ended March 31, 1992, the Company recorded oil and gas revenues of $305,000 and $158,000 respectively on volumes of 17,312 barrels of oil and 102,456 mcf of gas sold. This compares to oil and gas revenues of $283,000 and $154,000 respectively on 15,370 barrels of oil and 69,610 mcf of gas sold during the same quarter last year. The increase in revenues was primarily attributable to increased sales volume from the Company's acquisition of Colorado properties (the "acquired properties") in August 1991. Sales volume attributable to the acquired properties totalled 5,099 barrels and 19,510 mcf for the quarter ended March 31, 1992. The increased sales volume was partially mitigated by an $.80 and $.67 decline in average oil and gas sales prices, respectively.

Production expenses and taxes increased $83,000 or 90%, from $93,000 for the quarter ended March 31, 1991 to $176,000 for the quarter ended March 31, 1992. The increase was primarily due to additional production expense of $38,000 associated with the acquired properties. Additionally, production expense and taxes were lower than average during the same quarter last year due to various reasons including the sale of certain marginal properties.

Depreciation and amortization increased $26,000, or 13%, from $208,000 for the quarter ended March 31, 1991 to $234,000 for the quarter ended March 31, 1992. The increase was primarily due to higher production volumes from the acquired properties. Additionally, the depreciation rate per equivalent barrel of oil increased $.18 per barrel from $6.08 in 1990 to $6.20 in 1991 due to a downward revision of reserves at September 30, 1991.

General and administrative expenses increased slightly from $133,000 for the quarter ended March 31, 1991 to $136,000 for the quarter ended March 31, 1992. The increase is primarily due to additional contract labor costs to resolve various title issues and additional payroll costs associated with the Company's matching contribution under its 401K plan. These increases were mitigated by lower travel costs and professional fees which the Company has made a continuing effort to reduce. Additionally, rent expense declined by $4,500 as the Company purchased the Denver office building in September 1991.

Interest expense increased $16,000, or 114%, from $14,000 for the quarter ended March 31, 1991 to $30,000 for the quarter ended March 31, 1992. The increase was expected due to the increase in long-term debt associated with the Company's acquisition of oil and gas properties in August 1991.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued).

Results of operations for the six months ended March 31, 1992 compared to the six months ended March 31, 1991.

For the six months ended March 31, 1992, the Company recorded oil and gas revenues of $603,000 and $344,000 respectively on volumes of 32,035 barrels of oil and 208,382 mcf of gas sold. This compares to oil and gas revenues of $636,000 and $346,000 respectively on 28,466 barrels of oil and 180,268 mcf of gas sold during the same period last year. The decline in revenues was primarily attributable to a $3.52 decline in the average sales price per barrel of oil from $22.34 in 1991 to $18.82 in 1992. In addition, the average sales price per mcf declined $.27 from $1.92 in 1991 to $1.65 in 1992. Additional sales volume associated with the acquired properties partially mitigated the decline in oil and gas prices. Sales volume attributable to the acquired properties totalled 8,014 barrels and 39,200 mcf for the six months ended March 31, 1992.

Production expenses and taxes increased $69,000 or 23%, from $301,000 for the six months ended March 31, 1991 to $370,000 for the six months ended March 31, 1992. The increase was primarily due to additional production expense of $92,000 associated with the acquired properties. If the production expenses attributable to the acquired properties are excluded, production expenses and taxes declined $23,000 or 7.6%. This illustrates management's continuing effort to reduce production expenses and streamline operations.

Depreciation and amortization increased $35,000, or 9%, from $399,000 for the six months ended March 31, 1991 to $434,000 for the six months ended March 31, 1992. The increase was primarily due to the additional sales volume associated with the acquired properties. Additionally, the depreciation rate per equivalent barrel of oil increased $.18 per barrel from $6.08 in 1990 to $6.20 in 1991 due to a downward revision of reserves at September 30, 1991.

General and administrative expenses declined $23,000 or 8% from $296,000 for the six months ended March 31, 1991 to $273,000 for the six months ended March 31, 1992. The decline is primarily due to lower travel costs, other professional fees and legal costs, which the Company has made a continuing effort to reduce. Additionally, rent expense declined by $9,000 as the Company purchased the Denver office building in September 1991.

Interest expense increased $35,000, or 130%, from $27,000 for the six months ended March 31, 1991 to $62,000 for the six months ended March 31, 1992. The increase was expected due to the increase in long-term debt associated with borrowings to fund the Company's acquisition of oil and gas properties in August 1991, and subsequent workover/recompletion costs.

As discussed in Note 3, the Company wrote-off $96,000 of deferred charges related to merger negotiations with a Houston based oil and gas company during the quarter ended December 31, 1991. Additional merger costs of $2,700 were expended during the three months ended March 31, 1992.

As described in Note 4, the Company accrued $35,000 during the quarter ended December 31, 1991 to fully provide for a title settlement of $100,000 and the Company's estimated legal costs. As of March 31, 1992, the Company has established a cash reserve of $85,000 to fund this settlement. The remainder of the settlement is expected to be funded through cash flow from operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued).

Liquidity & Capital Resources:

Cash Flow from Operations

Cash provided from operating activities decreased $493,000 from $531,000 for the six months ended March 31, 1991 to $38,000 for the six months ended March 31, 1992. The decline was due to a significant decline in oil and gas prices which reduced revenues and resulted in a net loss for the period. Additionally, the significant reduction in trade payables, ad valorem taxes and accrued liabilities also reduced cash flow provided from operations for the six months ended March 31, 1992.

Capital Expenditures

Capital expenditures for the six months ended March 31, 1992 were $293,000 which is $563,000 lower than the comparable period last year. The decline was expected as the Company's primary focus during the six months ended March 31, 1992 was to workover and enhance production on its newly acquired Colorado properties. During the six months ended March 31, 1992, the Company spent approximately $122,000 on these workover operations. Furthermore, the Company spent approximately $35,000 to participate in the drilling of three exploratory wells, one of which was successful. The remainder of the capital expenditures were for leasehold acquisition and other development costs.

Liquidity and Capital Resources

The Company has improved its working capital position by $102,000 from a negative $49,000 at September 30, 1991 to a positive $53,000 at March 31, 1992. The improvement was anticipated as the Company utilized cash flow from operations and $257,000 of borrowings under long-term debt to reduce trade payables by $217,000, ad valorem taxes by $51,000, and other liabilities by $67,000.

Other than cash flow from operations, the Company's primary source of liquidity and capital resources is a line-of-credit with a major bank which provides a borrowing base up to $2,500,000 based upon the Company's proved reserves. As of March 31, 1992, the Company's maximum borrowing base was $2,100,000 and its outstanding principal balance was $1,516,000. Therefore, the Company has approximately $584,000 available under the line-of-credit.

Capital Budgets and Commitments

The Company has budgeted minimal exploration and development activities for the remainder of the fiscal year in an effort to maintain its working capital position and reduce long-term debt. The Company will continue to focus on reducing operating costs, enhancing current production, and pursuing the acquisition of additional oil and gas properties. The current constraints on capital resources may limit the extent or timing of these activities.

The Company is committed to invest $57,000 in a production acquisition and developmental drilling partnership over the next 12 months.

PART II: OTHER INFORMATION

ITEM 1. Legal Proceedings - None

ITEM 2. Changes in Securities - None

ITEM 3. Defaults on Senior Securities - None

ITEM 4. Submission of matters to a vote of security holders

The annual meeting of shareholders was held at the Atlanta, Georgia office of the Company on March 18, 1992. The following matters were presented to the shareholders and the results of the voting was as follows:

Proposal 1: TO ELECT FOUR DIRECTORS OF THE COMPANY FOR A TERM OF ONE YEAR AND/OR UNTIL THEIR SUCCESSORS ARE ELECTED AND QUALIFIED.

	FOR	%	WITHHOLD
Glenn Wm. Simmons	2,994,594	68.7%	283
B. Clayton Rolader	2,994,594	68.7%	283
Thomas M. Alexander	2,994,594	68.7%	283
Lonnie C. Bird	2,994,594	68.7%	283

ITEM 5. Other Information - None

ITEM 6. Exhibits and Reports on Form 8-K

a. No reports on Form 8-K were filed during the quarter ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HABERSHAM ENERGY COMPANY

Date: May 13, 1992

Robert J. Devers
Secretary/Controller
(Authorized Officer /
Chief Accounting Officer)

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MAY 15 1992

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Q 35755

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QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For Quarter Ended: **March 31, 1992**

ITHACA BANCORP, INC.
(Exact name of registrant as specified in its charter)

New York	0-18705	22-2953099
(state or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

30-09(C)

PROCESSED BY

L30 MAY 18 1992

118 North Tioga Street, Ithaca, New York 14850
(Address of principal executive offices)

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Registrant's telephone number, including area code (607)273-7111

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ______

Number of shares of common stock outstanding as of May 13, 1992: 2,309,296.

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ITHACA BANCORP, INC

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Part I – Financial Information

Item 1 – Financial Statements

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Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 1992 and 1991 (Unaudited) 3

Consolidated Statements of Cash Flows for the Three Months Months Ended March 31, 1992 and 1991 (Unaudited) 4

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CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (Unaudited)	December 31, 1991
	(in thousands)	
ASSETS		
Cash and due from banks	$7,580	$7,525
Fed funds sold	7,685	10,688
Investment securities, market value of $14,889 at March 31, 1992 and $14,057 at December 31, 1991	14,651	13,630
Mortgage-backed securities, market value of $13,262 at March 31, 1992 and $13,972 at December 31,1991	13,490	13,871
Loans held for sale	19,652	12,654
Loans receivable, net	380,096	391,822
Accrued interest receivable	4,063	4,043
Real estate acquired through foreclosure	22,611	23,058
Real estate held for development and resale, net	3,731	3,724
Premises and equipment, net	3,158	3,294
Other assets	11,004	10,596
	------	------
	487,721	$494,904
	======	======
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$44,340	$44,548
Savings	79,142	59,398
Money market	27,958	27,708
Time	243,299	262,101
	------	------
Total deposits	394,739	393,755
Advances from Federal Home Loan Bank	55,375	63,075
Accrued expenses and other liabilities	7,621	8,312
	------	------
Total liabilities	457,735	465,142
	------	------
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock; 5,000,000 shares authorized; none issued	--	--
Common stock; $0.01 par value; 8,000,000 shares authorized and 2,309,296 shares issued and outstanding	23	23
Additional paid-in capital	20,315	20,315
Retained earnings	9,648	9,424
	------	------
Total stockholders' equity	29,986	29,762
	------	------
	$487,721	$494,904
	======	======

See accompanying notes to the consolidated financial statements.

ITHACA BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
	(Unaudited) (In thousands, except per share amounts)	
INTEREST INCOME:		
Real estate loans	$8,176	$10,196
Other loans	966	1,277
Mortgage-backed securities	263	494
Investment securities	419	482
Total interest income	9,824	12,449
INTEREST EXPENSE:		
Deposits	5,232	7,443
Federal Home Loan Bank advances	982	1,373
Other borrowed funds	--	4
Total interest expense	6,214	8,820
Net interest income	3,610	3,629
Provision for possible loan losses	300	300
Net interest income after provision for possible loan losses	3,310	3,329
OTHER OPERATING INCOME:		
Net gain on sales of loans	78	29
Loan servicing fees	352	326
Bank service fees	310	281
Insurance commissions and fees	51	31
Other	(5)	1
Total other operating income	786	668
OTHER OPERATING EXPENSE:		
Salaries and employee benefits	1,624	1,660
Office occupancy and equipment	423	443
Data processing	277	255
Deposits and other insurance	344	377
Professional fees	317	242
Real estate operations, net	109	199
Other	630	581
Total other operating expense	3,724	3,757
Income before income taxes	372	240
Income tax expense	148	90
Net income	$224	$150
Net income per common share	$0.10	$0.06

See accompanying notes to the consolidated financial statements.

ITHACA BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	For the Three Months Ended March 31,	
	1992	1991
	(Unaudited) (In thousands)	
Stockholders' Equity:		
Balance, December 31, 1991 and 1990	$29,762	$29,724
Net income	224	150
Balance, end of period, March 31,	$29,986	$29,874

See accompanying notes to the consolidated financial statements.

ITHACA BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	1992	1991
	(In thousands)	
INCREASE (DECREASE) IN CASH FLOWS		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$9,730	$11,827
Fees and commissions received	213	455
Interest paid	(6,287)	(8,824)
Cash paid to suppliers and employees	(3,924)	(4,412)
Income taxes refunded (paid)	(507)	1,044
Originations of loans held for sale	(15,087)	(4,632)
Proceeds from loans held for sale	7,763	3,661
Investment in real estate held for development and resale	(254)	(272)
Proceeds from sales of real estate held for development and resale	126	--
Net cash used in operating activities	(8,227)	(1,153)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities	1,175	--
Purchases of investment securities	(2,123)	--
Net decrease in loans receivable	9,212	2,388
Principal collected on mortgage-backed securities	381	571
Proceeds from sales of real estate acquired through foreclosure	3,384	798
Purchases of premises and equipment	(34)	(26)
Purchased servicing rights	--	(12)
Net cash provided by investing activities	11,995	3,719
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	984	(7,108)
Proceeds from Federal Home Loan Bank advances	7,480	17,500
Repayment of Federal Home Loan Bank advances	(15,180)	(17,000)
Net cash used in financing activities	(6,716)	(6,608)
Net changes in cash and cash equivalents	(2,948)	(4,042)
Cash and cash equivalents: Beginning of period	18,213	9,804
End of period	$15,265	$5,762
RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Net income	$224	$150
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	169	180
Amortization of purchased servicing rights	130	142
Accretion of investment securities	(74)	(168)
Provision for possible loan losses	300	300
Provision for possible losses and write-downs of real estate	(110)	(70)
Net gain on sales of loans	(78)	(29)
Amortization of unearned discount and net deferred fees	(88)	(78)
Increase in accrued interest receivable	(20)	(454)
Increase in other assets	(537)	(248)
Decrease in accrued expenses and other liabilities	(332)	(769)
Increase (decrease) in accrued tax expense	(359)	1,134
Increase in loans held for sale	(7,324)	(971)
Increase in real estate held for development and resale, net	(128)	(272)
Total adjustments	(8,451)	(1,303)
Net cash used in operating activities	($8,227)	($1,153)
Supplemental Schedule of Noncash Investing Activities:		
Real estate acquired in settlement of loans through foreclosure	$2,706	$127

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

(1) In the opinion of Ithaca Bancorp, Inc., the accompanying unaudited consolidated financial statements contain all adjustments, consisting of only normal recurring accruals, necessary to present fairly the Company's financial position as of March 31, 1992 and the results of operations, and the cash flow statements for the three months ended March 31, 1991 and 1992 and the statements of changes in stockholders' equity for the three months ended March 31, 1992 and 1991.

Separate financial statements of unconsolidated subsidiaries and real estate partnerships have been omitted since, if considered in the aggregate, they would not constitute a significant subsidiary.

The financial statements and other information contained herein are not necessarily indicative of the results of operations or financial condition which will occur or exist in the future.

(2) Loans

The composition of the loan portfolio (which excludes loans held for sale) is summarized as follows:

	March 31, 1992	December 31, 1991
	(In thousands)	
Real estate loans		
Conventional:		
1–4 family	$206,131	$211,055
Multi–family	78,429	79,063
Commercial	51,774	52,298
Construction	12,461	16,628
FHA insured and VA guaranteed	8,901	9,055
	357,696	368,099
Other loans:		
Business	18,605	20,169
Consumer	8,951	9,260
	27,556	29,429
Less:		
Undisbursed portion of loans–in–process	424	839
Unearned discount and net deferred fees	476	565
Allowance for possible loan losses	4,318	4,302
	5,218	5,706
Loans receivable, net	$380,034	$391,822

The composition of loans held for sale is summarized as follows:

	March 31, 1992	December 31, 1991
	(In thousands)	
1–4 family real estate loans	$7,021	$1,102
Guaranteed student loans	12,693	11,552
Loans held for sale	$19,714	$12,654

The following summarizes transactions in the allowance for possible loan losses.

	For the Three Months Ended March 31, 1992	For the Year Ended December 31, 1991
	(In thousands)	
Balance, beginning of period	$4,302	$5,402
Provision charged to operations	300	1,200
Charge–offs	(367)	(2,845)
Recoveries	83	545
Balance, end of period	$4,318	$4,302

(3) Real Estate Acquired through Foreclosure and/or Held for Development and Resale,net

Real estate acquired through foreclosure and/or held for development and resale, net includes the following:

	March 31, 1992	December 31, 1991
	(In thousands)	
Real estate acquired through foreclosure	$19,504	$11,476
Real estate collateral in substance foreclosed	3,107	11,582
	$22,611	$23,058
Real estate held for development and resale	$6,166	$6,039
Allowance for possible losses	2,435	2,315
	$3.731	$3.724

The following summarizes transactions in the allowance for possible losses:

	For the Three Months Ended March 31, 1992	For the Year Ended December 31, 1991
	(In thousands)	
Balance, beginning of period	$2,315	$1,809
Provision charged to operations	120	506
Balance, end of period	$2,435	$2,315

The following summarizes income(expense) from real estate operations:

	For the Three Months Ended March 31,	
	1992	1991
	(In thousands)	
Net gain on sale of real estate	($273)	($43)
Write-down of real estate	29	76
Provision for possible losses	120	--
Rental income	(212)	(139)
Real estate expenses	445	305
Real estate operations, net	$109	$199

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

FINANCIAL CONDITION

Ithaca Bancorp, Inc. (the "Company") is a New York corporation and is the savings and loan holding company for Citizens Savings Bank, F.S.B. ("Citizens"), the sole direct subsidiary of Ithaca Bancorp.

The Company had net income of $224,000 for the quarter ended March 31, 1992 compared to $150,000 for the same period last year. First quarter 1992 results were benefitted by a $205,000 gain on the sale of a $1.1 million South Carolina ORE property. An improvement in net interest margin (the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities) from the first quarter of 1991 to the first quarter of 1992 substantially offset a decrease in interest income resulting from a reduction in total assets. Net interest income was approximately $3.6 million for both the first quarter of 1992 and 1991. The improved net interest margin is primarily due to a $4.6 million reduction in the average amount of non-performing assets outstanding during the first quarter of 1992 compared to the same period last year. In addition to adversely affecting net interest income, non-performing assets also require a commitment of management and staff resources and significant out-of-pocket expenses for legal and consulting advice, real estate taxes and other maintenance expenses.

Citizens' financial condition and operating results continue to be adversely affected by a high level of non-performing assets which consist primarily of loans not accruing interest and real estate acquired in foreclosure (ORE). Non-performing assets increased slightly during the quarter ended March 31, 1992 because the amount of new non-performing assets exceeded the amount of non-performing assets resolved during the quarter, primarily through the sale of ORE. However, during the first quarter of 1992, progress was made in workout efforts which allowed Citizens to acquire title to substantial amounts of ORE. ORE sales totalled $3.1 million in the first quarter of 1992 compared to $7.6 million for all of 1991.

Citizens decreased total assets $7.2 million during the first quarter of 1992 and decreased total assets $46.5 million during all of 1991. Citizens began downsizing during the last months of 1990. This downsizing is the result of not pursuing all available lending opportunities and devoting substantial management effort to addressing problem assets which increased dramatically in late 1990. This nearly one and a half year period of asset shrinkage coincides with a period of sluggish economic growth and generally slow business activity which resulted in fewer acceptable loan opportunities. The reduction in total assets has allowed Citizens to maintain satisfactory capital levels despite lower than desirable earnings. Citizens' capital ratios remain above the Office of Thrift Supervision (OTS) requirements, with tangible and core capital ratios of 6.03% and a risk based capital ratio of 9.63% at March 31, 1992. Citizens core and tangible capital ratios have increased from 5.41% at December 31, 1990 to 6.03% at March 31, 1992 and the risk based capital ratio increased from 9.24% to 9.63% over the same period.

Beginning in late 1991, Citizens began experiencing a significant increase in single family mortgage loan origination activity. Approximately 12% of the $16.2 million in single family loans originated in the first quarter were adjustable rate loans. The remaining fixed rate single family loans are generally sold to the secondary market under delivery agreements which avoid market price risk.

Citizens has restricted new construction lending by focusing primarily on single family construction loans. Construction loans outstanding have declined $27.9 million since year end 1990. Decreases in construction loan outstandings represent 52% of the decrease in total assets since December 31, 1990. During the first quarter of 1992, construction loans decreased $3.8 million representing almost 53% of the decline in total assets.

Adversely classified assets at March 31, 1992 totalled $54.6 million, a decrease of $4.5 million during the quarter. Adversely classified assets are those which have identifiable weaknesses that may involve a greater than normal risk of not realizing an asset's full value. The decrease results primarily from the sale of ORE and, to a lesser extent, borrower loan repayments and charge-offs.

The Board of Directors of the Company is in the final stages of identifying and hiring a new president and chief executive officer.

Results of Operations.

The following table shows in summary form, for the periods indicated, interest income from daily average interest-earning assets, expressed in dollars and yields earned, and interest expense on daily average interest-bearing liabilities, expressed in dollars and rates paid. Interest rate margins have improved in 1992 compared to 1991 as a result of 1) reductions in the amount of loans not accruing interest, 2) less demand for higher cost funds as the bank was shrinking in size during 1991 and the first quarter of 1992, and 3) more rapid declines in rates paid on interest bearing liabilities compared to interest earning assets in a period of generally declining interest rates.

	Three Months Ended March 31,					
	1992			1991		
	Average Balance	Interest Income/ Expense	Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)
Interest-earning assets.....	$445,385	$9,824	8.83%	$500,602	$12,449	9.97%
Interest-bearing liabilities..	$448,730	6,214	5.57	$499,933	8,820	7.15
Net interest income.......		$3,610			$3,529	
Interest rate margin............			3.26%			2.82%
Net yield on interest-earning assets..................			3.26%			2.94%

(1) Annualized

The improvement in net yield was not as great as the improvement in net interest margin between the periods due to increases in ORE. ORE is not considered an interest earning asset but it must still be funded with interest bearing liabilities.

Comparison of Three Month Periods Ended March 31, 1992 and 1991

The Company had net income of $224,000 or $0.10 per share in the first quarter of 1992 compared to $150,000 or $0.06 per share for the same period in 1991.

Net interest income remained relatively constant for the first quarter of 1992 at $3,610,000 or $19,000 less than the same period in 1991. Average interest earning assets declined $55.2 million period to period due to management's decision in late 1990 to apply more conservative loan underwriting standards at a time of reduced loan demand. This reduction in average interest-earning assets outstanding caused a decrease in net interest income of approximately $450,000 in the first quarter of 1992 compared to the same period in 1991. However, earnings forgone due to non-performing assets decreased between the periods as non-performing assets decreased. Earnings not realized due to non-performing assets are estimated at $610,000 and $938,000 in the first quarters of 1992 and 1991, respectively.

The interest rate margin improved 0.44% to 3.26% in first quarter 1992 compared to first quarter 1991. Lower levels of non-performing assets in first quarter 1992 compared to first quarter 1991 contributed 0.29% to the interest rate margin in first quarter 1992. The remainder of the improved interest rate margin results from the net effect of lower market interest rates on both funding costs and yields on adjustable rate loans.

Interest Income

Interest income declined $2,625,000 in first quarter 1992 compared to first quarter 1991 due to decreases in average yields earned and a decrease in the amount of average interest-earning assets outstanding. Average yields earned decreased 1.14%, which reduced interest income by approximately $1,248,000 for the first quarter 1992 compared to the same period in 1991. Yields earned decreased as Citizens' rate sensitive assets were repriced during a period of declining interest rates. However, the magnitude of the yield decrease was lessened due to the reduction in loans not accruing interest. Earning assets declined $55.2 million period to period, primarily due to management's decision in 1990 to reduce the size of Citizens, which reduced interest income by approximately $1,377,000.

Interest Expense

Interest expense for the first quarter of 1992 was $6,214,000 or $2,606,000 less than $8,820,000 for the same period in 1991. Approximately $1,679,000 of the reduction in interest expense is estimated to result from the decrease in rates and approximately $927,000 from a decrease in the volume of interest-bearing liabilities. The average rate paid on interest-bearing liabilities decreased 1.58% to 5.57% in the first quarter of 1992 compared to 7.15% in the first quarter 1991. The decrease in rates paid on deposits and borrowings resulted from a general decline in market interest rates. The decline in market interest rates also contributed to deposit outflows as some rate conscious customers appear to have moved their funds out of Citizens and into other investment vehicles. Deposits decreased from $428 million at March 31, 1991 to $394 million at December 31, 1991 and have remained approximately at 1991 year end levels throughout the first quarter of 1992. Deposit outflows of $6.6 million from Citizens' primary market area were offset with deposit inflows of $7.6 million from its wholesale deposit operation in the first quarter of 1992. Reductions in borrowings ($55.4 million and $68.9 million outstanding at March 31, 1992 and 1991, respectively) were also caused by lower funding needs.

Other Operating Income

Other operating income for the first quarter of 1992 was $786,000 compared to $668,000 for the first quarter of 1991, an increase of $118,000. An increase in gain on the sale of 1-4 family residential loans originated in Citizens' primary market region account for $49,000 of the increase in other income. Citizens closed single family mortgage loans totalling $16.2 million in the first quarter of 1992 compared to $3.4 million in the first quarter of 1991. Citizens retains adjustable rate loans for portfolio and sells most fixed rate loans to the secondary market. Sales of these loans in the first quarter of 1992 totalled $7.1 million and exceeded first quarter 1991 sales of $2.7 million by $4.4 million.

Bank service fees were higher by $29,000 or 10% in the first quarter of 1992 compared to the first quarter of 1991 due primarily to April 1991 rate increases on many products and services. Loan servicing fees increased $26,000, or 8%, in first quarter 1992 compared to the first quarter of 1991 due to increases in late charges and fees earned on funds held pending disbursement to third party investors. Citizens' insurance subsidiary has streamlined operations to focus on health, life, and annuity products. The insurance subsidiary contributed $20,000 more in gross revenues in the first quarter of 1992 than in the same period in 1991.

Other Operating Expense

Other operating expense for the quarter ended March 31, 1992 was $3,724,000, or $33,000 less than first quarter 1991 operating expense of $3,757,000.

The net expense of real estate operations (for both ORE and direct real estate held for development and resale) and expenses for professional fees represent the categories of other operating expense with the most significant period to period changes. ORE totalled $22.6 million at March 31, 1992, compared to $14.6 million one year earlier. The expenses associated with acquiring, managing and disposing of ORE, as well as the loss of interest income because ORE is a non-earning asset, continue to adversely affect income.

Despite increased levels of ORE and a slow-down in the disposition of real estate held for development and resale, the net expense of real estate operations decreased from $199,000 in the first quarter of 1991 to $109,000 in the first quarter of 1992. This decrease results from a $230,000 period to period increase (from $43,000 to $273,000) in net gains on the sale of real estate which go to reduce the net expense of real estate operations. A $205,000 gain on the sale of one ORE property in South Carolina during the first quarter of 1992 was the largest contributor to this increase.

However, actual carrying expenses of real estate net of rental income increased by $67,000 from $166,000 to $233,000 between the periods principally due to the higher level of ORE and the resulting increase in the related level of carrying cost. In addition, Citizens continues to be required to advance funds to carry its real estate held for development and resale, principally residential development projects which have been adversely affected by the economy. Advances of $254,000 were made for such carrying costs during the first quarter of 1992 compared to $308,000 during the like period in 1991 and the provision for possible losses on such investments was $120,000 during the first quarter of 1992 compared to no provision for loss in the first quarter of 1991. Furthermore, writedowns in the book value of ORE and real estate held for development and resale totalled $29,000 in the first quarter of 1992 compared to $76,000 in the first quarter of 1991. The expenses related to ORE and real estate held for development and resale can be expected to remain at high levels until Citizens is able to reduce the level of ORE and direct real estate investments through sales. Management is aggressively working to dispose of such properties; however, a stagnant economy, slow residential real estate activity and limits on the availability of purchase money financing all serve to delay the final disposition of these properties.

Legal expenses for ORE and loans in a work-out status continue to remain at high levels and are expected to remain high until outstanding non-accruing loans and ORE decrease. Consulting expense, a component of professional fees, was $108,000 for the quarter ended March 31, 1992 compared to $34,000 for the same period in 1991 and includes expenses for strategic planning for Citizens and executive search firm expenses associated with identification and selection of a new president and chief executive officer.

Delinquent Loans

Loans past due 60 days or more totalled $17,707,000 at March 31, 1992 compared to $18,112,000 at December 31, 1991. During the first quarter of 1992, $3.6 million of loans became past due 60 days or more, while $2.8 million of delinquent loans were transferred to ORE as title to security was acquired at the conclusion of the foreclosure process. Approximately $1.2 million of loans past due 60 days or more at year end 1991 were brought to a more current status by March 31, 1992. Loans past due 90 days or more represented 86% of reported delinquencies at March 31, 1992 compared to 67% at December 31, 1991. The new delinquencies and the shift towards more seriously delinquent categories during the first quarter of 1992 are believed to result principally from adverse general economic conditions. Management is aggressively acting to reduce existing delinquencies through collection efforts and has adopted more conservative loan approval procedures to reduce future delinquencies.

The following table sets forth information concerning delinquent loans at March 31, 1992, expressed in dollars and as percentages of total loans. The amounts shown represent total remaining principal balances of the related loans, rather than the actual payment amounts that are delinquent, and are net of amounts guaranteed or insured by government agencies.

	Loans Past Due for 60 Days and over at March 31, 1992							
	60 - 89 days		90 - 119 days		120 days and over		Total	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans
	(Dollars in Thousands)							
Residential property loans, net	$1,027	0.2%	$260	0.1%	$2,408	0.6%	$3,695	0.9%
Commercial real estate loans	1,064	0.3	265	0.1	6,193	1.6	7,521	1.9
Construction loans	10	0.0	2,025	0.5	1,221	0.3	3,257	0.8
Business loans	301	0.1	219	0.1	2,551	0.6	3,071	0.8
Consumer loans, net	118	0.0	8	0.0	23	0.0	148	0.0
Total	$2,519	0.6%	$2,778	0.7%	$12,396	3.1%	$17,692	4.4%

Non-performing Assets

Citizens' non-performing assets (composed primarily of loans which are not accruing interest and real estate acquired through foreclosure) increased $0.4 million from $35.9 million at December 31, 1991 to $36.3 million at March 31, 1992. The increase in non-performing assets in the quarter ended March 1, 1992 is due to the addition of $5.1 million of delinquent loans to non-accruing status, reduced by $3.1 million of ORE sold, $.4 million of non-accrual loans charged to the allowance for loan loss and $1.2 million of loans brought current or paid off by the borrower. Three loan relationships totalling $3.6 million, are the major portion of delinquent loans which moved to non-accruing status during the first quarter of 1992. Two of these loan relationships totalling $1.7 million, are located in Citizens' primary market region and are secured by commercial real estate. The third loan relationship of $1.9 million is secured by residential building lots located in South Carolina. During the first quarter of 1992, through aggressive efforts, Citizens acquired title to $9.6 million of property securing loans in default, including $6.8 million representing property which had been deemed in substance foreclosed at year end 1991 and thus already classified as ORE at year end although title had not yet been acquired.

Non-performing assets decreased $4.1 million from $40.4 million at March 31, 1991 to $36.3 million at March 31, 1992. This decrease resulted primarily from write-downs in the book value of ORE charged directly against income and, to a lesser extent, because of real estate sales and reinstatement of loans to current paying status.

Citizens is focused on reducing the level of non-performing assets, primarily through the sale of ORE. However, the unavailability of purchase money financing in some real estate markets may lengthen the time required to dispose of ORE. Citizens' ORE includes $11.4 million of developed residential building lots and residential land parcels some of which are estimated to take several years to completely sell out. Delays in disposing of ORE will prolong the adverse effect on earnings caused by these non-interest earning assets.

Non-performing Assets

	March 31, 1992	December 31, 1991	March 31, 1991
	(Dollars in thousands)		
Non-accrual loans (1)	$12,635	$11,949	$25,678
Loans past due 90 days or more and still accruing	1,102	866	186
Total non-performing loans	13,737	12,815	25,864
Real estate acquired through foreclosure	22,611	23,058	14,563
Total	$36,348	$35,873	$40,427
Percent of total loans, net and real estate acquired through foreclosure	8.61%	8.39%	8.79%

Non-performing loans - By type as of March 31, 1992.

	Loan Portfolio Balance	Total Non-Performing Loans (1)	Non-performing Loans as a Percent of Portfolio Balance
	(Dollars in thousands)		
Mortgage loans:			
Residential	$216,775	$2,893	1.33%
Commercial/Multi family	133,014	3,144	2.36
Construction	11,532	6,455	55.97
Total mortgage loans	361,321	12,492	3.46
Consumer loans	21,482	381	1.77
Business loans	16,945	864	5.10
Total	$399,748	$13,737	3.44%

(1) These amounts exclude the Farmers Home Administration (FmHA) guaranteed portion of the principal outstanding on a past due commercial mortgage loan, which is guaranteed as to both principal and interest and amounted to $3,809,000 at March 31, 1992 and December 31, 1991 and $6,072,000 at March 31, 1991. Citizens is accruing the interest on this loan to the extent interest is guaranteed by FmHA.

Classified Assets

At March 31, 1992 Citizens' adversely classified assets totaled $54.6 million, which is $18.3 million greater than total non-performing assets of $36.3 million at that date. All non-performing assets are adversely classified, but not all adversely classified assets are non-performing. The $18.3 million difference between adversely classified assets and non-performing assets consists of $6.4 million of real estate held for development and resale and $11.9 million of loans which are current with respect to interest payments, but which are adversely classified because of identifiable credit weaknesses.

Adversely classified assets decreased $4.5 million during the first quarter of 1992 due primarily to sales of ORE totalling $3.1 million. Loans totalling $1.8 million ceased to be adversely classified assets upon resolution of their credit weaknesses and $0.9 million of additional loans and direct investments with identifiable credit weaknesses were adversely classified in the quarter ending March 31, 1992.

Provision for Possible Loan and Real Estate Losses

The allowance for possible loan losses was $4,318,000 at March 31, 1992. This allowance increased $16,000 since year end 1991 due to the net effect of a $300,000 provision charged to expense and $284,000 of charge-offs, net of recoveries. The allowance for possible losses on real estate held for investment and resale was $2,435,000 at March 31, 1992, an increase of $120,000 since year end 1991. This increase is due to additional provisions charged to expense in the first quarter of 1992.

Liquidity and Capital Resources

As a federal savings bank, Citizens must maintain a specified ratio of cash and short-term United States Government and other specified assets to net withdrawable accounts and borrowings payable in one year or less. This liquidity requirement may vary from time to time, depending upon economic conditions and savings flows, and is currently 5%. Citizens' liquidity ratio for the month of March 1992 was 6.72%.

At March 31, 1992, the total of approved loan commitments amounted to $11.3 million, of which approximately $10.2 million, or 90%, were anticipated to be funded by Citizens within six months. These commitments are issued by Citizens as part of the regular process by which it makes loans to borrowers. Funds required to fulfill the commitments are derived primarily from payments received in reduction of existing loans, new deposit inflows and, when appropriate, borrowings. Management anticipates that it will sell $5.0 million of fixed rate loans committed but not funded at March 31, 1992.

Of Citizens' borrowings at March 31, 1992, $8.0 million is scheduled to mature during the next six months and the amount of savings certificates scheduled to mature during that period is $130.9 million. Management expects that a substantial portion of these maturing deposits will be redeposited with Citizens and management anticipates that the maturing borrowings will be replaced with new borrowings, as needed. At March 31, 1992, Citizens had the ability to borrow up to $146.3 million (representing 30% of total assets) from the Federal Home Loan Bank of New York (FHLBNY), including $27.0 million on an overnight line of credit. Of this amount, Citizens had outstanding advances from FHLBNY of $55.4 million at March 31, 1992, representing 11.4% of total assets. The use of FHLBNY credit facilities may be affected by the Supervisory Agreement between Citizens and the OTS, which prohibits growth above $538.6 million in total assets, and the application of OTS liability growth restrictions which prohibit Citizens from increasing its liabilities by more than an amount equal to net interest credited on deposits on a quarterly basis, without the OTS' permission.

The FDIC has proposed a new rule, which may be effective as early as June 16, 1992, which will eliminate Citizens' ability to accept or renew brokered deposits without a prior waiver from the FDIC. At March 31, 1992 Citizens had $37.8 million of brokered deposits with maturities occurring over the next approximately 2 years. Management believes the approximate two year transition to replace brokered deposits will allow Citizens to replace brokered deposits without having a material adverse affect on liquidity or cost of funds.

Under federal law and regulations, Citizens, as a federal savings bank, must maintain core capital in an amount not less than

3% of its adjusted assets, tangible capital in an amount not less than 1.5% of its adjusted assets and risk based capital of at least 7.2% of risk weighted assets, which increases to 8% by January 1, 1993. Citizens' capital exceeds all of the OTS fully phased-in minimum capital requirements. The following table sets forth the fully phased-in regulatory capital ratio requirements applicable to Citizens and Citizens' corresponding capital position at March 31, 1992. In meeting each of the three capital standards, most institutions are required to deduct from capital their investment in and extensions of credit to any subsidiary engaged in activities not permissible for a national bank. However, Citizens, which was chartered prior to October 15, 1982, as a savings bank under state law, is exempt from this requirement.

	Fully Phased-in Regulatory Capital Requirement		Citizens Capital Ratio at 3/31/92		Excess of Citizens' Capital over Regulatory Capital Requirement	
	Amount	Percent	Amount	Percent	Amount	Percent
Core Capital........	$14,641	3.00%	$29,442	6.03%	$14,801	3.03%
Tangible Capital....	$ 7,320	1.50%	$29,442	6.03%	$22,122	4.53%
Risk-based Capital..	$26,902	8.00%	$32,392	9.63%	$ 5,490	1.63%

FDIC capital adequacy regulations establish minimum requirements for an institution's ratio of Tier I capital to total assets. Tier I capital is equal to common stockholders' equity, non-cumulative perpetual preferred stock and minority interest in consolidated subsidiaries, minus intangible assets (other than certain mortgage servicing rights and qualifying supervisory good will), minus identified losses not yet recognized on the institution's books, and minus investments in securities subsidiaries and mortgage banking subsidiaries under certain circumstances. The regulations do not generally apply to Citizens, but they do apply to Citizens in the context of any applications Citizens may make to the FDIC which require consideration of the adequacy of Citizens' capital structure or financial resources, or which require an assessment of the safety and soundness of

Citizens. A limited number of the highest rated banks are subject to a 3% minimum Tier I capital ratio requirements. Most banks, including Citizens, must have a capital ratio that is 1% to 2% higher. The FDIC may require an even higher level of capital based on an institution's risk profile. At March 31, 1992, the Tier I capital ratio of Citizens was 6.06%.

Interest Rate Sensitivity

Interest rate sensitivity is the result of differences in the amounts and repricing dates of Citizens' assets and liabilities. A major factor which determines the exposure of the Citizens' earnings to interest rate risk is the relationship between the maturities and repricing characteristics of its interest-earning assets and interest-bearing liabilities. These differences or interest rate repricing "gaps", provide an indication of the extent that Citizens' net interest income may be affected by future changes in interest rates.

Citizens current policy is to seek to avoid material differences in the timing of the repricing of its assets versus its liabilities. If assets estimated to reprice within a given period exceed the liabilities estimated to reprice within the same period, a "positive" gap results. This could tend to have a favorable impact on earnings during a period of rising interest rates and to have an unfavorable impact during a period of declining rates. Citizens estimates that it currently has a positive one year interest rate gap. Citizens' rate sensitive one-year positive gap (the excess of assets over liabilities scheduled to reprice within one year) was estimated to be $50.0 million, or 10.25% of total assets, as of March 31, 1992. Citizens positive one year gap has widened by $36.1 million since December 1990 when it was $13.9 million. The principal causes of the increasing positive gap are 1) decreases in time deposits of one year or less resulting from deposit outflows to higher yielding non-bank investments and 2) a reduction in borrowings maturing in one year or less.

Management believes that the current level of positive gap does not expose future net interest income to an unreasonable level of interest rate risk because of the current low market rate environment and two factors which significantly offset the effect of a one year positive gap.

First, Citizens estimates that it has a negative 6 month gap (more liabilities repricing in the time period than assets) and a positive gap (more assets repricing than liabilities) in the over 6 months to 1 year time period, resulting in an overall positive one year gap. In a period of steadily falling or rising interest rates, this negative 6 month gap tends to offset the expected effect of an overall one year positive gap. A second factor which reduces the effect of Citizens' positive gap is that most adjustable rate loans are repriced based upon the interest rate in effect 30 to 60 days before the repricing occurs. Such a one to two month lag has a favorable impact on interest income during a period of falling rates and a negative impact on interest income during a period of rising rates. These outcomes are the opposite of the expected outcome for a positive gap and decrease the expected effect of positive gap.

Citizens estimates that its one year gap at March 31, 1992 was $5.1 million higher than its reported one year gap at December 31, 1991. Approximately $43.1 million of this increase is attributable to changes in repricing characteristics of assets and liabilities, but was offset by an approximately $38.0 million reduction in positive gap resulting from revisions to management's assumption used in calculating gap, as discussed in detail below. The principal changes in repricing characteristics result from changes in the mix of liabilities. During the first quarter of 1992, Citizens experienced a $28.3 million decrease in time deposits scheduled to mature within 12 months, while time deposits maturing in more than one year increased by $9.5 million.

The following table sets forth, in summary form, the amount of Citizens' assets and liabilities estimated to mature, reprice or amortize within the stated time periods. The information presented is based upon assumptions which management believes to be reasonably related to past experience. For the reasons set forth in detail below, management has revised the assumptions used to estimate the repricing rates for transaction and savings accounts. Management regularly reviews the assumptions used in analyzing interest rate sensitivity and makes adjustments when warranted.

Asset/Liability Repricing Table

	Maturity/Repricing Period at March 31, 1992			
	Within 1 yr	1 – 5 yrs	After 5 years	Total
	(Dollars in thousands)			
INTEREST – EARNING ASSETS:				
Investment securities	$18,217	$4,119	$ --	$22,336
Mortgage – backed securities	4,169	3,206	6,115	13,490
Residential real estate loans	187,468	17,659	12,155	217,282
Commercial/construction real estate loans	112,821	26,656	7,532	147,009
Consumer, guaranteed student and business loans	25,603	7,938	6,708	40,249
Total	348,278	59,578	32,510	440,366
INTEREST – BEARING LIABILITIES:				
Transaction & Savings accounts	44,172	43,260	36,051	123,483
Money market	27,958	--	--	27,958
Time deposits	191,779	51,093	427	243,299
FHLBNY advances	34,400	18,575	2,400	55,375
Total	298,309	112,928	38,878	450,115
Cumulative rate sensitive gap	$49,969	($3,381)	($9,749)	($9,749)
Cumulative rate sensitive gap as % of total assets	10.25%	−0.69%	−2.00%	−2.00%

Gradually during 1991, and more rapidly during the first quarter of 1992, Citizens experienced a shift in its deposit mix away from certificates of deposit and into regular savings accounts. The low interest rate environment experienced in recent times has caused interest rates on certificates of deposit to approach, and sometimes even fall below, interest rates on regular savings accounts. More rate-conscious customers appear to have shifted their deposits from certificate of deposit accounts into regular savings accounts. Citizens believes it is reasonable to assume that such new savings deposits are more volatile than traditional savings deposits, with depositors more likely to shift the deposits back into certificates of deposit or other higher rate products if interest rates move upward. In the past, Citizens has assumed, for interest rate sensitivity analysis purposes, that savings deposits will reprice at the rate of 5% per year. For the first quarter of 1992, Citizens has assumed that the first $45 million of savings deposits, representing the base level of such deposits, will reprice at the rate of 12.0% per year. All savings deposits in excess of $45 million, representing the incremental deposits believed to result from the shift in depositor preference, are estimated to reprice with one year.

PART II – Other Information

Item 1 – Legal Proceedings.

No material development.

Item 2 – Changes in Securities.

None.

Item 3 – Defaults Upon Senior Securities.

None.

Item 4 – Submission of Matters to a Vote of Security Holders.

None.

Item 5 – Other Information.

None.

Item 6 – Exhibits and Reports on form 8-K.

(a) Exhibit 11 – Statement re Computation of Earnings Per Common Share

(b) Reports on Form 8-K.

None.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant ha duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Ithaca Bancorp, Inc.

Date: May 14, 1992

Edward S. Elles, Jr.
Executive Vice-President and
Chief Financial Officer

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EXHIBIT 11

Statement re Computation of Earnings per Common Share

	For the Three Months Ended March 31,	
	1992	1991
Net income	$224,000	$150,000
Weighted average shares outstanding	2,309,296	2,309,296
Net income per common share	$0.10	$0.06

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992 or

[ ]Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______ to ______

Commission File No. 0-17193

T CAPITAL CORPORATION
ame of Registrant as Specified in its Charter)

DELAWARE
(State or other Jurisdiction of Incorporation or Organization)

84-1054570
(IRS Employer Identification No.)

6401 East Rogers Circle, Suite 4, Boca Raton, Flori
(Address of Principal Executive Offices - Zip C

(407) 241-6750
(Registrant's Telephone Number, Including Area Code)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such Reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

The aggregate market value of the voting stock held by non-affiliates of the Company as of July 14, 1992 was $1,425,545.

As of July 14, 1992, 39,622,601 shares of common stock, par value $.0001 per share, were outstanding.

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MET CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEET

ASSETS

	MARCH 31, 1992	DECEMBER 31, 1991
Cash	$ 72,762	$ 100,380
Account Receivable	11,923	10,099
Inventory	7,141	8,045
Property and Equipment, net	2,525,985	2,561,259
Land Held for Development	3,925,937	3,773,120
Investment in Unconsolidated Company	--	175,337
OTHER ASSETS:		
Other - net	543,035	443,056
	$ 7,086,783	$ 7,071,296

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 1992	DECEMBER 31, 1991
Current Maturities	$ 108,157	$ 107,157
Accounts Payable & Accrued Expenses	447,259	868,484
Accrued Interest Payable	536,772	394,005
Income Tax Payable	--	--
Due to Related Parties	207,932	55,847
Total Current Liabilities	$ 1,300,120	$ 1,425,493
LONG TERM DEBT, net of current maturities	$ 2,335,551	$ 2,382,148
MINORITY INTEREST IN PARTNERSHIP	$ 757,065	$ 757,065
STOCKHOLDERS' EQUITY		
Preferred stock: par value $.0001, 1,000,000 shares authorized, no shares issued and outstanding	$ --	$ --
Common stock: par value $.0001, 100,000,000 shares authorized, 39,622,601 and 38,274,267 shares issued and outstanding as of March 31, 1992 and December 31, 1991	$ 3,961	$ 3,826
CAPITAL IN EXCESS OF PAR VALUE	9,165,880	9,033,065
ACCUMULATED DEFICIT	(6,475,794)	(6,530,301)
TOTAL STOCKHOLDER'S EQUITY	$ 2,694,047	$ 2,506,590
	$ 7,086,783	$ 7,071,296

THE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

MET CAPITAL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THREE MONTHS ENDED MARCH 31, 1992 AND 1991

	March 31, 1992	March 31, 1991
REVENUES:		
Furniture Sales	$ 1,869,758	$ 0
Rent	168,902	0
Consumer Products	38,969	0
Interest income	133	0
Other income	0	0
Total Revenues	$ 2,077,762	$ 0
EXPENSES:		
Cost of Sales:		
Furniture Sales	$ 1,589,294	$ 0
Rent	0	0
Consumer Products	12,556	0
Compensation	0	0
Other general & administrative	326,759	25,566
Depreciation/amortization	42,471	9,879
Interest expense	41,841	1,462
Total Expenses	$ 2,012,921	$ 36,907
Income (Loss) Before Extraordinary Item	$ 64,841	$ (36,907)
EXTRAORDINARY ITEM		
SALE OF SUBSIDIARY	$ (10,334)	$ --
INCOME FROM DISCONTINUED OPERATION	0	64,702
INCOME (LOSS) BEFORE INCOME TAXES	$ 54,507	$ 27,795
PROVISION FOR TAXES		
CURRENT INCOME TAXES	13,626	8,338
TAX BENEFIT OF UTILIZING NET OPERATING LOSS CARRYFORWARD	(13,626)	(8,338)
NET INCOME TAXES	$ 0	$ 0
NET INCOME	$ 54,507	$ 27,795
NET INCOME - COMMON SHARE	$ .001	$ .001

THE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

MET CAPITAL CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FROM DECEMBER 31, 1989 THROUGH MARCH 31, 1992

	Shares	Amount	Capital in Excess of Par Value	Accumulated Deficit
BALANCE, December 31, 1989	26,662,770	$2,666	$2,189,086	($1,790,195)
Common stock issued at $.10 per share to retire related party debt	1,600,000	$160	$159,840	0
Common stock issued at $.108 per share various dates	1,162,500	116	125,484	0
Common stock issued - furniture & fixtures $1.00 per share	82,150	8	82,142	0
Common stock issued - 75% Part. interest $1.00 per share	1,290,000	129	1,289,871	0
NET LOSS	0	0	0	($781,310)
BALANCE, December 31, 1990	30,797,420	$3,079	$3,846,423	($2,571,505)
Common stock issued in acquisitions with a market value guarantee (Note 4 & 12)	3,091,667	$309	$4,899,691	0
Common stock issued for cash & services at $.067 to $.20 per share	3,172,680	317	205,834	0
Common stock issued in settlement of disputes (Notes 11 and 14)	1,212,500	121	81,117	0
NET LOSS	0	0	0	($3,958,796)
BALANCE, December 31, 1991	38,274,267	$3,826	$9,033,065	($6,530,301)
Common stock issued for cash & services at $.067 to $.15 per share	1,308,334	$131	$112,819	0
Common Stock issued for distribution rights	40,000	4	19,996	0
NET INCOME	0	0	0	$54,507
BALANCE, MARCH 31, 1992	39,622,601	$3,961	$9,165,880	($6,475,794)

THE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

MET CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 1992

NOTE 1 - ORGANIZATION:

Met Capital Corporation (the "Company") was formed on February 17, 1987, under the laws of the State of Delaware. Its principal business is to identify and acquire business opportunities. The Company owns a 75% interest of a limited partnership, which owns a 45 acre tract of land in Gainesville, Florida. The Company is presently negotiating a commitment to finance the development of 620 rental apartment units. The Company also owns Micro Max Industries, Inc. which assembles and distributes an aftermarket fluid filtration system for automatic transmissions and certain other related products.

NOTE 2 - FINANCIAL STATEMENTS:

The accompanying unaudited consolidated financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations and changes in stockholders' equity at March 31, 1992 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1991 audited financial statements. The results of operations for the period ended March 31, 1992 are not necessarily indicative of the operating results for the full year.

Item 1. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS:

During the three months ended March 31, 1992, the Company had net income of $54,507, as compared with the net income of $27,795 for the same period in the prior year. The results of operations for the quarters ending March 31 are not comparable inasmuch as the Company did not have the same business operations, thus comparison in not meaningful.

LIQUIDITY AND CAPITAL RESOURCES:

The Company has limited access to working capital. The Company has relied solely on the proceeds from sales of its common stock in private placements and cash from operations to operate the Company. The Company incurred losses of approximately $3,958,800, $781,000 and $1,466,000 in 1991, 1990, and 1989, respectively. The loss for 1991 was primarily due to discontinued operation of DeVille. Management is currently considering several alternatives for capital resources including a private placement. There can be no assurance that funds can or will obtained.

The Company acquired 75% of the limited partner interests in the Partnership. Management expects that it will cost approximately between $24 million to $26 million to develop 620 rental apartment units. On June 26, 1992, the Company received a commitment to finance the partnership property. The loan amount for the construction/development of the entire project will be for $27.5 million or no more than the appraised value of the partnership property, whichever is less. The Company is also seeking financing from other sources but at the present time has no commitment for such funds. There can be no assurance that the funds for the development of this project can or will be obtained. Until the land is developed, the Partnership will not generate any revenues or cash flow.

Martin Hackman and Jeffrey A. Hackman are each entitled to cash compensation at a rate of $150,000 per annum. At December 31, 1991, Martin Hackman and Jeffrey A. Hackman waived the payment and accrual of such cash compensation. As of March 31, 1992 Martin Hackman and Jeffrey A. Hackman each have accrued their salary.

INVESTMENT IN THE FUTURE:

The Company will continue to diversify by seeking to acquire growth oriented companies and income producing real estate to enhance the per-share value and earnings of the Company.

SUBSEQUENT EVENTS:

In May 1992, the first mortgage holder of the partnership's property modified and extended the first mortgage to mature on January 2, 1994. Also, the Company paid the accrued and unpaid interest of $544,122 by issuing 2,092,780 shares of its common stock to the first mortgage holder which brought all interest due current. PCDC, on behalf of the Partnership, has agreed to reimburse the first mortgage holder $124,282 which he advanced for payment of the real estate taxes.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders of the Company during the last quarter of the period covered by this filing.

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

A form 8-K was filed on January 22, 1992 in reference to changes in registrant's certifying accountant.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized July 15, 1992.

MET CAPITAL CORPORATION

By:______________________________

Jeffrey A. Hackman, President

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended March 31, 1992

Commission File Number 0-10701

SOONER ENERGY CORP.
(Exact name of registrant as specified in its charter)

British Columbia, Canada (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
9320 East Central, Suite A Wichita, Kansas 67206 (address of principal executive offices)	67206 (Zip Code)

Registrant's telephone number, including area code (316) 636-2667

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ___x___ No ______

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the close of the period covered by this report.

5,499,490 shares of common stock, no par value
108,692 shares of Series A non-voting preferred stock, $1 par value

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PART I – FINANCIAL INFORMATION

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Consolidated Balance Sheets at March 31, 1992 (unaudited) and December 31, 1991	1
Consolidated Statements of Operations for the three months ended March 31, 1992, and March 31, 1991 (unaudited)	2
Consolidated Statements of Cash Flows for the three months ended March 31, 1992 and March 31, 1991 (unaudited)	3
Management's Discussion and Analysis of Financial Condition and Results of Operations	4
PART II – OTHER INFORMATION	
Items 1 – 8 have been omitted since they are inapplicable	–
Item 9 – Exhibits and Reports of Form 8-K	
No reports on Form 8-K have been filed during quarter ended March 31, 1992	•

SOONER ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 1992 (unaudited)	December 31, 1991
Current Assets:		
Cash	$ 53,987	$ 33,887
Accounts receivable, trade	26,564	30,819
Total current assets	80,551	64,706
Oil and gas properties, successful efforts method	241700	239,716
Other	—	25,000
Total Assets	$ 322,251	$ 329,422
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Oil & gas payable	$ 4,579	$ 39,089
Trade accounts payable	94,903	41,179
Total current liabilities	99,482	80,268
Stockholders' Equity:		
Series "A" non-voting preferred stock authorized 5,000,000 of $1.00 par value, issued and outstanding 141,299 shares at both March 31, 1992 and December 31, 1991	108,692	108,692
Common stock, authorized 50,000,000 shares of no par value; issued and outstanding 5,499,490 shares at both March 31, 1992 and December 31, 1991	5,314,622	5,314,622
Deficit	(5,200,545)	(5,174,160)
Total Stockholders' Equity	222,769	249,154
Total Liabilities and Stockholders' Equity	$ 322,251	$ 329,422

SOONER ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	1992	1991
Revenues:		
Oil and gas sales	$ 31,242	$ 59,958
Other, net	1,432	6,272
Total revenues	$ 32,674	$ 66,230
Costs and Expenses:		
Cost of oil and gas sales	22,570	23,499
Depreciation, depletion and amortization	17,438	13,679
Exploration costs	—	289
General and administrative	18,951	44,970
Interest	100	1,275
Total costs and expenses	$ 59,059	$ 83,712
Loss before extraordinary item	(26,385)	(17,482)
Sale of asset	—	16,230
Net Loss	$ (26,385)	$ (1,252)
Income (loss) per share:		
Loss before extraordinary item	$ —	$ —
Extraordinary item	—	—
Net loss	$ —	$ —
Weighted average number of common shares outstanding	5,499,490	4,157,081

SOONER ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

	THREE MONTHS ENDED MARCH 31,	
	1992	1991
Cash Flows from Operating Activities:		
Net loss from continuing operations	$ (26,385)	$ (17,482)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation, depletion and amortization	17,438	13,679
Net book value of property disposals	--	294
Changes in operating assets and liabilities:		
Accounts receivable	4,255	19,350
Oil and gas payable	(51,010)	(4,920)
Trade accounts payable	53,724	9,094
Net cash (used in) provided by operating activities	(1,978)	20,015
Cash Flows from Investing Activities:		
Retirement of oil and gas properties	--	7,505
Capital expenditures	(2,922)	(24,014)
Maturity of Certificate of Deposit	25,000	--
Net cash provided by (used in) investing activities	22,078	(16,509)
Cash Flows from Financing Activities:		
Payment on bank credit	--	(13,500)
Net cash used by financing activities	--	(13,500)
Net Increase(Decrease) in Cash	20,100	(9,994)
Cash at beginning of year	33,887	92,235
Cash at end of period	$ 53,987	$ 82,241

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Months Ended March 31, 1992 versus
Three Months Ended March 31, 1991

Results of Operations

Oil and gas sales decreased by $28,716 primarily as a result of a decrease in oil and gas prices. Other income decreased by $4,840 which was primarily attributable to a decrease in operator fees. Total costs and expenses were $59,059 versus $83,712 in the first quarter of 1991, or a decrease of $24,653. The Company had a decrease in lease operating expense of $979, while depreciation, depletion and amortization increased by $3,759. General and administrative expense decreased by $26,019 and interest expense decreased by $1,175.

In the first quarter of 1992 our loss before extraordinary item was $26,385 versus $17,482 in 1991, resulting mainly from the decrease in oil and gas sales.

Liquidity and Capital Resources

The Company's working capital at March 31, 1992 was $(18,931) versus $(84,410) at March 31, 1991 for an increase in working capital of $65,479.

The Company does not have a formal plan for capital expenditures in 1992 and will continue to depend on internally generated funds as its main source of liquidity, as it has no unused line of credit or any formal arrangements with any lending institution to borrow funds.

Material Transactions

The Company has reached an agreement to exchange stock for certain oil and gas properties held by Bison Energy Corporation (Bison), a Kansas corporation. The properties are located in Oklahoma, and were valued by the independent engineering firm of Lawson and Company at Oklahoma City. Total reserves equal 3,215 barrels of oil and 106,097 MCF of gas.

The stock issued will be restricted, and the transaction is subject to Stockholder and regulatory approval.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOONER ENERGY CORP.

Date: May 13, 1992

By: ____________________
Dean Pattisson
Secretary

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N92-2258

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended March 29, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For The Transition Period From ____to____

PROCESSED BY
MAY 18 1992
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Commission File Number 01-1097

THE STANDARD REGISTER COMPANY

OHIO CORPORATION	31-0455440
600 ALBANY STREET, DAYTON, OHIO	45401
TELEPHONE NUMBER	513-443-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No. ____.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AS OF March 29, 1992
Common Stock - $1.00 Par Value	23,996,150
Class A Stock - $1.00 Par Value	4,725,000

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THE STANDARD REGISTER COMPANY

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PART I - FINANCIAL STATEMENTS

Consolidated Balance Sheet March 29, 1992, December 29, 1991 3

Consolidated Statement of Income 13 Weeks Ended March 29, 1992 and March 31, 1991 4

Consolidated Statement of Cash Flows 13 Weeks Ended March 29, 1992 and March 31, 1991 5

The consolidated financial statements of the Registrant included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Although certain information normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted, the Registrant believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K of the Registrant for the year ended December 29, 1991.

The consolidated financial statements included herein reflect all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary to present a fair statement of the results for the interim periods.

The results for interim periods are not necessarily indicative of trends or of results to be expected for a full year.

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THE STANDARD REGISTER COMPANY
CONSOLIDATED BALANCE SHEET
(Dollars in Thousands)

	March 29, 1992 (Unaudited)	December 29, 1991 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	$ 2,237	$ 4,092
Temporary Cash Investments, at Cost	66,620	57,588
Accounts Receivable, less Allowance for Losses	117,942	124,198
Inventories	94,843	92,926
Deferred Federal Income Tax	9,688	9,688
Prepaid Expense	4,270	4,262
Total Current Assets	$295,585	$292,754
PLANT AND EQUIPMENT		
Buildings and Improvements	$ 56,307	$ 56,194
Machinery and Equipment	166,758	165,683
Office Equipment	30,448	30,160
Total	253,513	252,037
Less Accumulated Depreciation	100,703	95,427
Depreciated Cost	152,810	156,610
Construction in Process	13,254	9,928
Land	2,488	2,488
Total Plant and Equipment	$168,552	$169,026
OTHER ASSETS		
Patents, Notes, and Other	$ 1,606	$ 1,780
TOTAL ASSETS	$465,743	$463,560
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 6,758	$ 6,768
Accounts Payable	15,823	16,580
Dividends Payable	-	4,301
Accrued Compensation	18,416	22,830
Accrued Retirement Expense	11,436	9,705
Accrued Other Expense	(767)	2,482
Accrued Taxes, except Income	3,793	4,413
Income Taxes Payable	4,770	4,051
Deferred Service Contract Income	7,716	3,927
Total Current Liabilities	$ 67,945	$ 75,057
LONG-TERM DEBT	$ 35,088	$ 35,189
DEFERRED TAXES	$ 23,981	$ 23,981
SHAREHOLDERS' EQUITY		
Common Stock, $1.00 Par Value 23,996,150 Shares Outstanding in 1992	$ 23,996	
23,948,397 Shares Outstanding in 1991		$ 23,948
Class A Stock, $1.00 Par Value 4,725,000 Shares Outstanding	4,725	4,725
Capital in Excess of Stated Value	24,858	24,246
Retained Earnings	285,150	276,414
Total Shareholders' Equity	$338,729	$329,333
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$465,743	$463,560

THE STANDARD REGISTER COMPANY
CONSOLIDATED STATEMENT OF INCOME
(In Thousands except Data Per Share)
(Unaudited)

	First Quarter 13 Weeks Ended March 29, 1992	First Quarter 13 Weeks Ended March 31, 1991
TOTAL REVENUE	$168,541	$172,306
COSTS AND EXPENSES		
Cost of Products Sold	$105,633	$113,784
Engineering & Research	2,036	2,032
Selling and Administrative	40,931	41,269
Depreciation	5,665	5,198
Interest	537	867
Total Costs and Expenses	$154,802	$163,150
INCOME BEFORE INCOME TAXES	$ 13,739	$ 9,156
Income Taxes	4,996	3,180
NET INCOME	$ 8,743	$ 5,976
Average Number of Shares Outstanding (000)	28,715	28,681
DATA PER SHARE		
Net Income Primary and Fully Diluted	$ .30	$ .21
Dividends Paid	$ .15	$ .14

THE STANDARD REGISTER COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	13 Weeks Ended	
	Mar 29, 1992	Mar 31, 1991
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 8,743	$ 5,976
Add (Deduct) Items not Affecting Cash:		
Depreciation	$ 5,665	$ 5,198
Gain on Sale of Facilities	2	8
Cash Provided by (Used for) Changes in:		
Accounts Receivable	6,257	10,975
Inventories	(1,922)	(2,236)
Other Assets	1	(196)
Accounts Payable	(757)	(2,056)
Accrued Expenses	(6,563)	(8,595)
Income Taxes Payable	719	1,437
Deferred Service Income	3,788	3,742
Net Adjustments	7,190	8,277
Net Cash Provided by Operating Activities	$ 15,933	$ 14,253
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Facilities	$ 137	$ 125
Additions to Plant and Equipment	(5,154)	(7,030)
Net Cash (Used) by Investing Activities	$ (5,017)	$ (6,905)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	$ (110)	$ (113)
Proceeds from Issuance of Common Stock	700	556
Dividends Paid	(4,308)	(4,016)
Repurchase of Common Stock	(41)	-)
Net Cash (Used) by Financing Activities	$ (3,759)	$ (3,573)
NET INCREASE IN CASH AND CASH INVESTMENTS	$ 7,157	$ 3,775
Cash and Cash Investments at Beginning of Year	$ 61,680	$ 41,425
CASH AND CASH INVESTMENTS AT END OF PERIOD	$ 68,837	$ 45,200

THE STANDARD REGISTER COMPANY
MANAGEMENT DISCUSSION AND ANALYSIS
OF THE INTERIM FINANCIAL STATEMENTS

Net income for the first quarter ended March 29, 1992 was $8.7 million or $.30 per share, compared to $6.0 million and $.21 per share for the corresponding prior year period. Pretax profits were up 50% from $9.2 million in 1991 to $13.7 million in the current year; the respective percentage pretax margin improved from 5.3% to 8.2%. The major contributing factors to this profit improvement included lower unit volume mitigated by improved pricing, lower paper costs, and reduced operating expenses.

Unit shipments were down 4.5%, but pricing improved, producing a net revenue reduction of 2.2%. From a product perspective, custom business forms increased 1.3% but stock forms declined 21.5%; the latter statistic reflects the continuation of a trend away from these lower margin commodity type forms. Total forms sales were off 1.1%. Promotional direct mail revenue was down 14.2% in the quarter; the historically strong growth in this product segment is expected to resume as the economy improves and as advertisers adjust to the higher third class postage rates. Document processing, bar code, and financial equipment and related software, service, and supplies revenue increased 1.0%. Finally, the AMS Division increased its sales of application software and systems to hospitals 11.2% in the quarter.

The Company increased list prices for most business forms 5% effective January 1, 1992. A second 5% increase was enacted in late April in response to a 15% price increase announced for white bond papers. A portion of the January 1 increase was realized in the first quarter. The Company's ability to fully recover these increases as the year progresses will be enhanced to the extent that the economy improves and paper prices stabilize.

Paper prices have been relatively volatile during the last 15 months with average first quarter 1992 prices well below those for the year earlier period. This was a major contributing factor to the 3.3 percentage point improvement in first quarter gross margin. Operating expenses, taken as a whole, were modestly lower in the first quarter 1992, reflecting a continuing emphasis on maintaining the lower cost profile established in the early 1991 restructuring program.

The Company announced the closing of its Hanford, California forms plant during the first quarter, shifting most production to its Porterville, California and Kirksville, Missouri facilities. Annualized savings are forecasted to exceed closing costs, which are not expected to be material.

On the balance sheet, cash and short-term investments totalled $68.8 million at quarter-end, compared to $41.8 million in total debt. This $27.0 million net cash position compares favorably to the $3.4 million net debt position reported a year earlier, demonstrating strong internal cash flow despite capital expenditures that continue to exceed depreciation levels and increased dividend payments. Shareholder equity increased $19.5 during the preceding 12 months, from $319.2 million as of March 31, 1991 to $338.7 million at current quarter-end. The Company's financial condition remains strong, providing a sound platform to execute its operating plans.

THE STANDARD REGISTER COMPANY

PART II - OTHER INFORMATION

ITEMS 1 THRU 6

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 13, 1992

THE STANDARD REGISTER COMPANY

/s/ C. J. Brown
By C. J. Brown, Vice President-
Finance and
Treasurer

CONSOLIDATED INCOME STATEMENT
(In Thousands except Data Per Share)
Unaudited

	Three Months (13wks) March 29, 1992	Three Months (13wks) March 31, 1991
TOTAL REVENUE	$ 168,541	$ 172,306
COSTS AND EXPENSES		
Costs of Products Sold	105,633	113,784
Engineering and Research	2,036	2,032
Selling and Administrative	40,931	41,269
Depreciation	5,665	5,198
Interest	537	867
TOTAL COSTS AND EXPENSES	$ 154,802	$ 163,150
INCOME BEFORE INCOME TAXES	13,739	9,156
Income Taxes	4,996	3,180
NET INCOME	$ 8,743	$ 5,976
Averrge Number Shares	28,715	28,681
DATA PER SHARE		
Net Income	$ 0.30	$ 0.21
Dividends Paid	$ 0.15	$ 0.14

CONSOLIDATED BALANCE SHEET
(In Thousands)
Unaudited

	March 29, 1992	March 31, 1991
ASSETS		
Current Assets	$ 295,585	$ 284,549
Plant and Equipment	168,552	163,715
Other Assets	1,606	2,392
Total Assets	$ 465,743	$ 450,656
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities	67,945	64,623
Long-Term Notes Payable	35,088	41,826
Deferred Taxes	23,981	25,057
Shareholders' Equity	$ 338,729	$ 319,150
Total Liabilities and Shareholders' Equity	$ 465,743	$ 450,656
WORKING CAPITAL	$ 227,640	$ 219,926

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1st QUARTER, 1992

TOTAL REVENUE			
NET SHIPMENTS			168,090
OTHER INCOME			
Total Other Income		451	
LESS: Other Deductions	537		
LESS: Interest	537	0	451
TOTAL REVENUE			168,541
COSTS & EXPENSES			
COST OF SHIPMENTS			110,217
PLUS: LIFO Adjustment			0
LESS: Depreciation			4,584
TOTAL COST OF PRODUCTS			105,633
Engineering Expense		2,150	
LESS: Depreciation		114	
TOTAL ENGINEERING EXPENSE			2,036
Selling Expense		30,455	
Other Deductions		0	
Administrative Expense		11,443	
LESS: Depreciation		967	
TOTAL SELLING & ADMINISTRATIVE			40,931
Depreciation (Include non-compete)			5,665
Interest			537
TOTAL COSTS & EXPENSES			154,802
INCOME BEFORE TAXES			13,739
INCOME TAX			4,996
NET INCOME			8,743

DEPRECIATION	JAN	FEB	MAR	TOTAL	
01-6950-820	35,077	35,077	43,846	114,000	114,000
01-8001-820	93,850	93,850	117,300	305,000	
01-8901-820	12,010	12,010	15,980	40,000	345,000
01-9113-820	17,415	17,415	17,420	52,250	
01-9120-820	63,000	63,000	79,000	205,000	
01-9120-820	27,700	27,700	34,600	90,000	
98-9695-820	84,615	84,615	105,770	275,000	622,250
	333,667	333,667	413,916	1,081.250 0	1,081,250

***** NOTE ****

RECLASSIFY 98-3558-000 [CONTINGENCIES] (AMS BONUS)
FROM INTEREST EXPENSE TO ADMIN ON PUPLIC REPORTS

MARCH BALANCE: 336,657

Rounded: 336

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)

of the Securities Exchange Act of 1934

092.2258

For Quarter Ended March 31, 1992

Commission File Number 0-18927

TANDY BRANDS ACCESSORIES, INC.
(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)

75-2349915
(I.R.S. Employer Identification No.)

690 East Lamar Boulevard, Suite 200, Arlington, TX
(Address of principal executive offices)

76011
(Zip Code)

Registrant's telephone number, including area code (817) 548-0090

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Number of shares outstanding at March 31, 1992
Common stock, $1 par value	2,004,546

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TANDY BRANDS ACCESSORIES, INC.

Form 10-Q

Quarter Ended March 31, 1992

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TANDY BRANDS ACCESSORIES, INC.

File Number 0-18927
Form 10-Q
Condensed Statements of Income
(Amounts in Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	1992	1991	1992	1991
Gross sales, less discounts, returns and allowances	$7,524	$6,394	$25,999	$20,308
Royalty, interest and other income	61	59	160	84
Total revenues	7,585	6,453	26,159	20,392
Costs and expenses:				
Cost of goods sold (exclusive of depreciation)	4,187	3,709	14,627	11,795
Selling, general and administrative	2,307	1,930	7,289	5,995
Depreciation and amortization	96	65	287	246
Interest expense	2	11	6	11
Spin-off costs	--	166	--	356
Total costs and expenses	6,592	5,881	22,209	18,403
Income before income taxes	993	572	3,950	1,989
Provision for income taxes	397	200	1,580	845
Net income	$ 596	$ 372	$ 2,370	$ 1,144
Average common shares and common share equivalents	2,175	1,943	2,144	1,935
Net income per average common share and common share equivalent	$ .27	$ .19	$ 1.11	$ .59
Cash dividends per common share	None	None	None	None

The accompanying notes are an integral part of these financial statements.

TANDY BRANDS ACCESSORIES, INC.
File Number 0-18927
Form 10-Q
Condensed Balance Sheets
(Dollars in Thousands)

ASSETS	March 31, 1992 (Unaudited)	June 30, 1991
Current assets:		
Cash and short-term investments	$ 588	$ 1,669
Accounts receivable, net	6,043	4,720
Inventories:		
Raw materials and work in process	4,107	3,517
Finished goods	6,750	4,628
Other current assets	607	592
Total current assets	18,095	15,126
Property and equipment, at cost	3,118	2,849
Accumulated depreciation	(1,624)	(1,520)
Net property and equipment	1,494	1,329
Goodwill, less amortization	1,433	1,485
Other assets, including deferred charges	625	675
TOTAL ASSETS	$21,647	$18,615
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 854	$ 889
Accrued expenses	2,012	1,664
Total current liabilities	2,866	2,553
Other noncurrent liabilities	616	610
Total liabilities	3,482	3,163
Stockholders' equity:		
Preferred stock, $1 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, $1 par value, 10,000,000 shares authorized, 2,004,546 shares and 1,314,243 shares issued as of March 31, 1992 and June 30, 1991, respectively	2,005	1,314
Additional paid-in capital	12,778	13,126
Retained earnings	3,382	1,012
Total stockholders' equity	18,165	15,452
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$21,647	$18,615

The accompanying notes are an integral part of these financial statements.

TANDY BRANDS ACCESSORIES, INC.
File Number 0-18927
Form 10-Q
Condensed Statements of Cash Flow (Unaudited)
(Dollars in Thousands)

	Nine Months Ended March 31	
	1992	1991
Cash flows from operating activities:		
Net income	$ 2,370	$ 1,144
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	192	166
Amortization	95	80
Noncash spin-off costs	–	166
Deferred income taxes	–	(50)
Change in assets and liabilities:		
Increase in accounts receivable	(1,323)	(1,150)
(Increase) decrease in inventories	(2,712)	828
Increase in other current assets	(15)	(225)
Decrease in accounts payable	(35)	(159)
Increase in accrued expenses	348	799
(Increase) decrease in noncurrent assets	7	(64)
Increase (decrease) in noncurrent liabilities	6	(11)
Net cash provided (used) by operating activities	(1,067)	1,524
Cash flows from investing activities:		
Purchases of property and equipment	(424)	(463)
Proceeds from sale of property and equipment	67	–
Net cash used by investing activities	(357)	(463)
Cash flows from financing activities:		
Exercise of employee stock options	58	–
Retirement of fractional shares resulting from stock split	(5)	–
Sale of unissued shares to employees stock purchase program	290	30
Net cash provided by financing activities	343	30
Net increase (decrease) in cash and cash equivalents	(1,081)	1,091
Cash and cash equivalents at beginning of period	1,669	9
Cash and cash equivalents at end of period	$ 588	$ 1,100
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 4	$ 21
Income taxes	1,553	–

Supplemental schedule of noncash activities:
See Footnote 2 for discussion of the spin-off

The accompanying notes are an integral part of these financial statements.

Notes to Condensed Financial Statements
(Unaudited)

Note 1 - Accounting Principles.

In the opinion of the Company, the accompanying condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of March 31, 1992 and 1991, and the results of operations and cash flows for the nine months then ended. The results of operations for the nine month periods ended March 31, 1992 and 1991, are not indicative of the results to be expected for the full year.

Note 2 - Spin-off of Tandy Brands Accessories, Inc.

In June 1990, the Board of Directors of the Bombay Company, Inc. (Bombay) approved a plan whereby the operations of its Tandy Brands Accessories division would be spun-off. In connection with this plan, Bombay formed a wholly-owned subsidiary, Tandy Brands Accessories, Inc., and transferred the operations to be spun-off to this subsidiary in exchange for 1,237,992 shares of the subsidiary's common stock. The spin-off became effective on December 31, 1990 by means of a distribution of the stock of the Company to the stockholders of Bombay on the basis of one share of the Company for each five shares of Bombay held. In addition, J.S.B. Jenkins, Chief Executive Officer, exchanged the Bombay shares he owned for 48,794 common shares of the Company. On December 31, 1990, the Company ceased to be a wholly-owned subsidiary of Bombay and was established as a separate, publicly-owned company. The Board of Directors established retained earnings equal to zero on December 31, 1990. Undistributed earnings prior to this date were allocated to paid in capital.

Administrative expenses incurred by Bombay have been allocated to the Company for periods prior to December 31, 1990. For the three month and nine month periods ended March 31, 1991, the Company also paid $166,000 and $356,000 in expenses related to the spin-off process.

Note 3 - Stock Split.

On November 13, 1991, the Board of Directors approved a 3 for 2 stock split to be affected by a stock dividend to stockholders of record on November 25, 1991. The distribution was completed on December 16, 1991 and was reflected in the financial statements by an increase in Common Stock amounting to $665,000 and a decrease in Paid in Capital of $665,000.

Note 4 - Acquisition of Accessory Design Group, Ltd.

On April 30, 1992, TBA Acquisition, Inc., a wholly owned subsidiary of Tandy Brands Accessories, Inc., acquired all outstanding common stock of Accessory Design Group, Ltd. (ADG) in exchange for $175,000 and 52,809 shares of common stock of Tandy Brands Accessories, Inc. In conjunction with the merger, two of the former principals of ADG have executed three year employment contracts which contain non-compete provisions. The non-compete provisions are applicable, under certain conditions, in the event their employment with the Company terminates.

ADG domestically markets women's fashion accessories including belts, handbags, hair accessories and hosiery. All goods sold by ADG are purchased domestically, or imported, as finished goods. The Company intends to continue operations as Accessory Design Group and to maintain management's current marketing and merchandising focus.

The acquisition of all the assets and liabilities of ADG will be accounted for under the purchase method of accounting and the resultant goodwill will be amortized over a 40 year period. Also on April 30, 1992, the Company retired $1,350,000 in various ADG notes payable to various lenders which bore interest at 12% per annum.

Unaudited pro forma combined results of Tandy Brands Accessories, Inc. and ADG (as if the acquisition had occurred at the beginning of the period for the nine month periods ended March 31, 1992 and 1991 are as follows:

Selected Pro Forma Data
(In thousands except per share data)

	Nine Months Ended March 31, 1992	Nine Months Ended March 31, 1991
Net Sales	$32,242	$24,895
Net Income	$ 2,591	$ 1,200
Net Income Per Share	$ 1.18	$ .60

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
TANDY BRANDS ACCESSORIES, INC.

GENERAL

Tandy Brands Accessories, Inc. (the "Company") manufactures and markets men's and boys' accessories and neckwear. The business is conducted primarily in the United States. Historically, the Company's sales and operating results are fairly consistent throughout the fiscal year, but there is a seasonal increase during the second quarter.

On April 30, 1992, the Company acquired all the common stock of Accessory Design Group, Ltd. (ADG) in a merger transaction. ADG markets women's accessories in the United States primarily to department stores, mass merchants and chain stores. (See Note 4 of Notes to Condensed Financial Statements for additional information regarding the acquistion of ADG.)

RESULTS OF OPERATIONS

Three Months Ended March 31, 1992 Compared to Three Months Ended March 31, 1991

The Company's sales increased by $1,130,000, or 17.7%, over the same period of the prior year. Increased sales of belts and neckwear sales accounted for the sales increase.

Cost of goods sold was 55.7% of sales for the three months ended March 31, 1992 compared to 58.0% for the same period of the prior year. The decrease was caused by increased efficiencies in the manufacturing facilities as a result of higher production levels.

Selling, general and administrative expenses increased by $377,000 due to the incremental costs associated with the sales increase noted above and additional costs associated with being a public company. As a percentage of sales, selling, general and administrative expenses increased to 30.7% of sales for the three months ended March 31, 1992 compared to 30.2% for the prior year.

Depreciation and amortization increased by $31,000 due primarily to the addition of computer and manufacturing equipment.

Income before income taxes increased by $421,000 due to increased sales and interest income which was partially offset by increased cost of sales and higher selling, general and administrative expenses. The nonrecurring spin-off costs in the prior year period accounted for $166,000 of the increased income before taxes.

The effective income tax rate for the quarter ended March 31, 1992 was 40.0% compared to 35.0% for the same period of the prior year. The higher effective income tax rate reflects the estimated potential impact as a result of recent franchise tax legislation enacted by the State of Texas.

Nine Months Ended March 31, 1992 Compared to Nine Months Ended March 31, 1991

The Company's sales increased by $5,691,000, or 28.0%, over the same period of the prior year. Increased neckwear sales and increased sales of belts and wallets to mass merchandisers and department stores accounted for the sales increase.

Cost of goods sold was 56.3% of sales for the nine months ended March 31, 1992 compared to 58.1% for the same period of the prior year. The decrease was caused by increased productivity levels in the manufacturing facilities which was partially offset by a change in customer mix.

Selling, general and administrative expenses increased by $1,294,000 due to the incremental costs associated with the sales increase noted above and additional costs associated with being a public company. As a percentage of sales, these expenses were 28.0% for the nine months ended March 31, 1992 compared to 29.5% for the same period of the prior year.

Depreciation and amortization increased by $41,000 due to capital expenditures for computer and neckwear production equipment.

Income before income taxes increased by $1,961,000 due to increased sales and other income which was partially offset by increased cost of sales and higher expenses. The nonrecurring spin-off costs in the prior year accounted for $356,000 of the increased income before taxes.

The effective income tax rate for the nine months ended March 31, 1992 was 40.0% compared to 42.5% for the same period of the prior year. The higher effective tax rate for the prior year period was due to the non-deductible nature of spin-off costs incurred during that period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. As of March 31, 1992, the Company had two unsecured bank credit lines aggregating $15,000,000 which can be used for seasonal borrowings or letters of credit. (These aggregate available lines have been increased to $19,000,000 as of April 30, 1992.) There were no outstanding borrowings at March 31, 1992.

For the nine months ended March 31, 1992, the Company's operating activities used cash of $1,067,000 compared to providing cash of $1,524,000 for the same period of the prior year. Increases in accounts receivable, income tax payments and inventories in the 1992 period were greater than net income, depreciation/amortization and the increase in accrued expenses.

Capital expenditures were $424,000 in the period ended March 31, 1992 compared to $463,000 for the same period of the prior year. The expenditures were primarily for vehicles, neckwear production and computer equipment.

The Company believes that its cash flow from operations and borrowings available under bank lines of credit are sufficient to fund its operations for the foreseeable future.

TANDY BRANDS ACCESSORIES, INC.
PART II - OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K.

No reports on Form 8-K have been filed during the quarter ended March 31, 1992. The exhibits filed as a part of this report are listed below.

Exhibit No.	Description
11	Statement Regarding Computation of Per Share Earnings
20	Quarterly Report to Stockholders - Quarter Ended March 31, 1992

Exhibit 11. Statement Regarding Computation of Per Share Earnings.

	Three Months Ended March 31,		Nine Months Ended March 31,	
Primary Earnings Per Share:	1992	1991	1992	1991
Weighted average of shares outstanding	2,002,222	1,942,500	1,990,103	1,935,000
Common share equivalents resulting from treasury share method calculation of outstanding stock options	172,467	--	154,220	--
Average common shares and common equivalent shares	2,174,689	1,942,500	2,144,323	1,935,000

Note: Average number of common shares and common share equivalents have been adjusted to reflect 3 for 2 stock split distributed to shareholders of record on November 25, 1991.

TANDY BRANDS ACCESSORIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TANDY BRANDS ACCESSORIES, INC.
(Registrant)

J.S.B. Jenkins
President and Chief Executive Officer

Stanley T. Ninemire
Vice President and Treasurer
(Principal Financial Officer)

Date: May 12, 1992

Exhibit 20.

TANDY·BRANDS ACCESSORIES, INC.

INTERIM REPORT
NINE MONTHS ENDED
MARCH 31, 1992

3

RESULTS FOR NINE MONTHS

May 8, 1992

Tandy Brands Accessories, Inc. had a very successful third quarter. In addition to reporting sales gains of 18 percent compared with the same quarter last year, the Company announced the acquisition of Accessory Design Group, Ltd., a domestic marketer of women's accessories.

On April 30, 1992, TBA Acquisition, Inc., a wholly owned subsidiary of Tandy Brands Accessories, Inc., acquired all the common stock of Accessory Design Group, Ltd. (ADG) in exchange for $175,000 and 52,809 shares of common stock of Tandy Brands Accessories, Inc. The 52,809 shares of Company common stock issued represented 2.6 percent of the outstanding common stock as of March 31, 1992. ADG has a strong customer base, experienced management and proven growth capabilities. The synergy between the two companies should help achieve ADG's potential for superior growth and profitability.

For the three months ended March 31, 1992, the Company reported net income of $596,000 or $.27 per share compared to net income for the same period in the prior year of $372,000 or $.19 per share. The prior year income before taxes for the quarter ended March 31, 1991 was negatively impacted by spin-off costs of $166,000.

Net income for the nine months ended March 31, 1992 was $2,370,000 or $1.11 per share compared to net income for the same period in the prior year of $1,144,000 or $.59 per share. The prior year income before taxes for the nine months ended March 31, 1991 was negatively impacted by spin-off costs of $356,000.

As a result of recent state franchise tax legislation, net income for the three and nine months ended March 31, 1992 reflects an increase in the Company's annual effective tax rate to 40.0 percent from 35.5 percent.

Earnings per share reported for the three and nine month periods ended March 31, 1992, and 1991, reflect the three for two stock split distributed to stockholders of record on November 25, 1991. The stock split increased the number of shares of common stock issued from 1,329,515 to 1,994,515, an increase of 665,000 shares. The stock split reflects the strong market appreciation of the Company's stock over the past year and the Company's ongoing commitment to increase market liquidity.

Net sales for the three months ended March 31, 1992 were $7,524,000, an 18 percent increase compared to the comparable period in the prior year of $6,394,000. The third quarter sales increase of 20% in 1991 was very strong, a fact which underscores the Company's achievement of an additional 18 percent increase this year. Net sales for the nine months ended March 31, 1992 were $25,999,000, a 28 percent increase compared to net sales in the comparable period in the prior year of $20,308,000. Even in these times of difficult economic conditions we continue to realize sales increases in every major product category over the prior year.

As of March 31, 1992, the Company ended the period with cash and short term investments of $588,000. In conjunction with the acquisition of ADG, the Company retired on April 30, 1992, $1,350,000 of notes payable owed by ADG which bore annual interest of 12 percent. Because of our strong sales increase of 23 percent in the fourth quarter of 1991, we anticipate modest sales increases in the fourth quarter of this fiscal year compared to the same quarter in the prior year.

On a pro forma basis for the nine months ended March 31, 1992, Accessory Design Group had sales of $6,243,000 and net income of $221,000, which would have added $.07 to the Company's earnings per share. Although we anticipate ADG to break even or have slight seasonal losses for the months of May and June 1992, we expect strong growth in sales and profits in fiscal 1993. With the acquisition of Accessory Design Group, Ltd., the Company has demonstrated its commitment to invest in the disciplined and profitable growth of Tandy Brands Accessories, Inc.

Clayton E. Niles

CLAYTON E. NILES
Chairman of the Board

JSB Jenkins

J.S.B. JENKINS
President and
Chief Executive Officer

TANDY BRANDS ACCESSORIES, INC.

Condensed Balance Sheets

(Dollars in Thousands)

	March 31, 1992	June 30, 1991
	(Unaudited)	
ASSETS		
Current assets:		
Cash and short-term investments	$ 588	$ 1,669
Accounts receivable, net	6,043	4,720
Inventories, at lower of cost or market	10,857	8,145
Other current assets	607	592
Total current assets	18,095	15,126
Property and equipment, at cost	3,118	2,849
Accumulated depreciation	(1,624)	(1,520)
Net property and equipment	1,494	1,329
Goodwill, less amortization	1,433	1,485
Other assets, including deferred charges	625	675
TOTAL ASSETS	$ 21,647	$ 18,615
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 854	$ 889
Accrued expenses	2,012	1,664
Total current liabilities	2,866	2,553
Other noncurrent liabilities	616	610
Total liabilities	3,482	3,163
Stockholders' equity:		
Common stock, $1 par value, 10,000,000 shares authorized, 2,004,546 shares and 1,314,243 shares issued as of March 31, 1992 and June 30, 1991, respectively	2,005	1,314
Additional paid-in capital	12,778	13,126
Retained earnings	3,382	1,012
Total stockholders' equity	18,165	15,452
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 21,647	$ 18,615

TANDY BRANDS ACCESSORIES, INC.

Condensed Statements of Income
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	1992	1991	1992	1991
Net sales	$ 7,524	$ 6,394	$ 25,999	$ 20,308
Royalty, interest and other income	61	59	160	84
Total revenues	7,585	6,453	26,159	20,392
Costs and expenses:				
Cost of goods sold (exclusive of depreciation)	4,187	3,709	14,627	11,795
Selling, general and administrative expenses	2,307	1,930	7,289	5,995
Depreciation and amortization	96	65	287	246
Interest expense	2	11	6	11
Spin-off costs	–	166	–	356
Total costs and expenses	6,592	5,881	22,209	18,403
Income before income taxes	993	572	3,950	1,989
Provision for income taxes	397	200	1,580	845
Net income	$ 596	$ 372	$ 2,370	$ 1,144
Average common shares and common shares equivalent outstanding	2,175	1,943	2,144	1,935
Net income per average common share and common share equivalent	$ .27	$ .19	$ 1.11	$ .59

TANDY·BRANDS
ACCESSORIES, INC.

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NASDAQ SYMBOL: TBAC